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CONCURRENT RESOLUTION ON THE BUDGET FOR FISCAL YEAR 1991

HEARINGS

BEFORE THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

NATIONAL SECURITY

FEBRUARY 5, 1990—VIEWS OF THE SECRETARY OF DEFENSE

MARCH 8, 1990—DEFENSE SPENDING PRIORITIES FOR THE NINETIES: VIEWS OF OUTSIDE DEFENSE EXPERTS

INTERNATIONAL AFFAIRS

FEBRUARY 28, 1990—BUSH ADMINISTRATION'S FOREIGN POLICY PRIORITIES AND FISCAL YEAR 1991 BUDGET REQUEST: VIEWS OF THE SECRETARY OF STATE

Volume II of III

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VIEWS OF THE SECRETARY OF DEFENSE

MONDAY, FEBRUARY 5, 1990

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to notice, at 10:03 a.m., in room SD-608, Dirksen Senate Office Building, Hon. Jim Sasser (chairman of the committee) presiding.

Present: Senators Sasser, Johnston, Riegle, Conrad, Robb, Domenici, Grassley, Rudman, and Gramm.

Staff present: John L. Hilley, staff director; and Randy DeValk, group leader for national defense.

For the minority: G. William Hoagland, staff director; and Roy Phillips, senior analyst for national defense.

OPENING STATEMENT OF CHAIRMAN SASSER

Chairman SASSER. The committee will come to order.

This morning, we are pleased to have the Secretary of Defense, Mr. Cheney, before us, along with the Chairman of the Joint Chiefs of Staff, General Colin Powell.

Secretary Cheney and General Powell, I want to welcome you here this morning before the Budget Committee of the U.S. Senate.

Let me begin, Mr. Secretary, by congratulating you and the President on your proposal for negotiating deeper troop cuts in Europe. I think it's certainly a step in the right direction, and I for one applaud it.

I'd be less than candid, however, this morning if I didn't say that, in my judgment, we still appear to be behind the power curve with regard to world events, world events that are occurring in Eastern Europe. When Gorbachev announced unilateral Soviet force reductions in his speech of December 1988 before the United Nations, whether he intended it or not he triggered a whole series of unilateral cut announcements by other countries of the Warsaw Pact.

By all accounts, Gorbachev is going to deliver on the pronouncement that he made before the United Nations to cut Soviet forces. Soviet manpower in Europe is expected to be reduced by 185,000 men in 1990 within the context of the half-a-million-man reduction announced a year ago. Hungary, Poland, Czechoslovakia, East Germany have all announced unilateral reductions in military personnel and defense budget cuts.

Not content to stop there, Hungary, Poland, and Czechoslovakia have demanded an end to Soviet troops inside their borders.

Perhaps the most striking illustration of what is occurring occurred at an unprecedented meeting held just a few weeks ago in Vienna—a meeting, which I'm told, the distinguished Chairman of the Joint Chiefs of Staff, General Powell, attended—where military leaders from both sides of the Iron Curtain congregated.

I'm told at that meeting that the Bulgarian chief of staff, General Dobrev, announced, first, that his military would respond only to direct threats to Bulgaria's own armed forces; and, second, that Bulgaria planned to convert 85 percent of its military production capacity to civilian use.

Now, perhaps, Mr. Secretary, that's what your distinguished predecessor, James Schlesinger, was referring to in his testimony before the Armed Services Committee just a few days ago when he said that "all the king's horses and all the king's men can't put the Warsaw Pact together again" as a military force.

It seems that nation after nation in the Eastern bloc is facing squarely up to a choice, and that choice, simply summarized, is guns or butter. They must make that choice because their economies simply aren't strong enough to produce both, and their people are choosing butter. Their people are demanding it. And I think the great pressure, of world events appears to be demanding it.

Now, it's a different story here in the United States. We have the luxury of being able to afford whatever it takes to maintain our national security, and we've done that now certainly since 1950. But we can't do it without some economic cost. And no one on this committee, I don't think, is going to argue that we should spend one penny less than what it takes to protect the security of the American people.

But for millions of American taxpayers who have accepted the burden of last decade's unprecedented $2 trillion peacetime military buildup, this peace dividend represents, I think, much more than simply peace, as valuable as that result is. It represents more than an opportunity to reestablish a spending balance. It represents an opportunity to reduce the budget deficits that are draining the vitality out of our future economy. Perhaps it represents an opportunity to reduce regressive payroll taxes. Perhaps it represents an opportunity to invest in health care or in education or our roads or our bridges.

I would submit that the "peace dividend myth," as some have called it, did not rise out of nothing. It rose out of a very profound desire for change in this country.

Now, I for one appreciate the fact that we're in the process of negotiating a conventional forces treaty, and that we're in the process of negotiating a START treaty. I know that the Soviet Union is in a state of internal flux. We have only to look at our television sets. Who would have thought that 200,000 people would be in the streets of Moscow demanding that the Communist Party be legislated out of existence as being the sole political party in the Soviet Union? I would not have dreamed that was possible as recently as 12 months ago, and I know of no one else who would have. I for one believe we ought to act with wisdom and prudence.

But the chief point I wish to make here today is that there is a price to be paid for inertia, for proceeding with business as usual as if really nothing much had happened in the world.

We on this committee are going to have to consider a lot of tradeoffs. We have to make tough decisions here, just as you have to make tough decisions in the Pentagon, Mr. Secretary. And I have a hunch that every day you're there, you're finding more and more how tough some of these decisions are. But the budget that's presented to us proposes to spend $5.5 billion for the B–2 bomber for 1991. That's a $1.2 billion increase over this fiscal year. It's our job to weigh that increase against the administration's $460 million cut in child nutrition and its $400 million cut in low-income energy assistance.

The administration is asking this committee for $4.5 billion in 1991 for star wars. That's a $900 million increase. Should we accept that increase, then we would also have to reduce Federal aid to highways by $1 billion, perhaps, as the administration suggests in their budget.

The administration also is proposing $2.8 billion for the MX rail-mobile missile. That's an increase of $1.1 billion. How should we assess that against proposed cuts in the maternal and child health programs, a $313 million cut in public housing when homelessness on our streets is a national shame, or contrast it with even a $50 million cut in veterans pensions?

Combined, the increases for the B–2 and for the strategic defense initiative and for the rail-mobile MX, and the new C–17 transport aircraft, and the Seawolf submarine all come to $6.4 billion. Suppose we accept all of this but conclude we can't cut another $5.5 billion out of medicare as proposed in the administration's budget. Do we then start cutting from the programs President Bush wants to increase? Do we cut from Head Start, science and space, crime and drug use prevention?

Well, these are some of the tough choices that we on this committee will face shortly and some of the tough choices that the Congress as a whole must face.

The budget presented to us asks for a $7 billion nominal increase in defense spending, and it does that at a time when common sense is telling us that the threat to our security has been radically reduced.

Now, the question comes, are these requested increases based on a full and rational assessment of what the threats are and what forces we truly need? If that is indeed the case, why does this budget make no adjustments in the funding and pace of the next generation of weapons systems?

We've just gone through a decade of modernization. And those who study these matters indicate to me that about every 20 years we renew the so-called platforms, military platforms, and those platforms are airplanes and aircraft carriers, tanks, et cetera. We've just gone through platform renewal, and I wonder why we've got to launch off into even more modernization before we've even finished the last phase of the modernization of the last decade.

Well, Mr. Secretary, I want to congratulate you on your efforts to improve efficiency in the Department of Defense and to begin making some of the force reductions that I think are necessary. I believe that you've anticipated the need to begin an orderly build-down. I suppose if we have a disagreement—and I believe we do—it is that this build-down is not coming, in my judgment, fast enough.

Frankly, a $300 billion defense budget simply seems insupportable to me for fiscal year 1991. That's about $70 billion in constant dollars above the Nixon-Ford peacetime average. And bear in mind that during the Nixon-Ford years we were facing a Soviet Union that was perceived to be armed to the teeth, that was hostile, and, we deduced at that time, was rearming itself.

Well, 40 percent of the defense budget, I'm told, goes to the development and production of weapons. And I would urge that as we get into this defense budget that we put everything on the table. Bases and force structure are already on the table. Let's also put new weapons systems on the table. I frankly don't think that we can possibly make the prudent choices that we need to make about the inevitable defense build-down with 40 percent of this budget excluded from our consideration.

Well, having said that, I'll turn now to our distinguished ranking member, Senator Domenici, for his comments and observations at this time. Senator Domenici.

OPENING STATEMENT OF SENATOR DOMENICI

Senator DOMENICI. Thank you very much, Mr. Chairman.

Let me first welcome you, Secretary Cheney, to these hearings. And, General Powell, let me not only welcome you, but let me suggest that perhaps when the President selected you for this job, maybe you thought you were going to have a relatively easy job. I'm not sure. But I'm quite positive that such is not the case now. You have the most difficult job, in my opinion, that a Joint Chief has had in the last 10 or 15 years because you have to preside over a reduction in what has been the greatest military force the world has ever seen.

Let me begin with just a few observations so everyone will know from my standpoint where I stand. First, I come down on the side that we are witnessing these great changes—the fall of the Berlin Wall and all the other changes occurring in Eastern Europe and around the world moving toward democracy and away from despotism—because the United States of America has had the will to maintain a magnificent defense establishment. I know there are some who think there were all kinds of different things caused these changes. Frankly, I believe without the past 10 years, it might have been decades before the events we see in Eastern Europe.

The capitalist system caused some of the momentum toward change—as the Soviet Union and its allies looked at the free world and saw that they were incapable of producing similar levels of goods and wealth.

It was America's commitment to defense, to applying our best science and technology, to using the very best of cutting-edge capability in terms of technology that finally brought us to where we are.

Having said that, it seems to this Senator that one thing we must not do is to make mistakes in a hurry, and, clearly, we have a little bit of time to see where this world is headed and what the role of the United States and her military is in this world.

I am reminded of what a Secretary of Mexico in charge of their foreign affairs recently said. He said, "Anarchy takes 24 hours. A stable democracy takes decades." I think that's right, and I think we don't know how all this is going to come out.

Having said that, let me just talk about four things. One, Mr. Secretary and General Powell, I believe you have a grave responsibility to see to it that you make the case for the men and women who serve in the military, who are the finest we have ever had in peacetime. I hope you will never let us here in the Congress, or anyone, do things to the defense budget which will put the quality, caliber, and commitment of these people in jeopardy.

We must not return to the last part of the previous decade, when we really had a hollow military essentially because we didn't have the right level of personnel, both in numbers and quality. The right levels of personnel are not cheap.

Secondly, I'd like to make a point about the Soviet Union and strategic weapons. There's no indication from anyone that the Soviet Union, which some suggest may be close to anarchy, has made any changes with respect to the 11,000 nuclear weapons that are not aimed up in the air but aimed at the United States. It appears to me that, if nothing else, we ought to make sure that on the strategic side we negotiate these reductions and do nothing unilaterally to jeopardize the opportunity we have to bring these nuclear weapons under control.

My third point, Mr. Chairman, has to do with this talk about a peace dividend. But I'm not going to talk about defense cuts from the standpoint of about how much is enough, but from the standpoint of where might the savings from those defense cuts be applied.

Five hundred billion dollars, I say to my friend from Texas, $500 billion is needed by the United States to reduce the deficit to what everybody considers to be fiscal soundness. I say to my friend, Senator Rudman, I looked at the next 3 years and 2 years after that. And it appears to me that everyone desires to get the federal budget in balance and then to get it in balance without social security reserves. We need $500 billion to do that.

Before we decide there's a lot of money around to spend, if the most significant thing we can do is to maintain a vibrant American economy—and everybody says the most significant thing is to reduce the deficit so we have more capital available for American business, large and small, to grow—it appears to me that we surely ought not to be making extraordinary cuts in defense thinking we're going to spend that money somewhere else.

My last point is that the President has recommended a significant reduction in defense. For those who don't think it goes far enough, it's obvious that times are changing, and this administration needs time to assess America's role in the world. For those who think they already know what our military role ought to be, then I submit they must be omniscient because we don't even know what kind of world we're dealing with, and we won't for a while.

But the President did submit a budget, that in 4 years, will have the United States spending on defense about 4 percent of gross national product. We've only done that twice in modern times, and it's rather symbolic as to when it was. The first time was right before the Second World War. We were almost a nonplayer. The second was after the Second World War when we thought peace was going to exist all over the world, and we decided that we didn't need a military any longer. We have not been at 4 percent since them.

The President's budget does not recommend that we do nothing. As you know, he recommends that we bring 80,000 troops home from Europe, close 14 bases overseas and 35 bases at home, deactivate two Army divisions, terminate the V-22, the F-14, the F-15, the M-1 tank, the Apache helicopter, and the Phoenix and Maverick missile programs. On the domestic side as our chairman has indicated, the President's budget has certain things going down We ought not forget, however, that there are a lot of things going up and going up dramatically.

I also remind the members of this committee that we have no assurance that the Members of Congress will eliminate the weapons systems that you are recommending. To the extent that they don't—and they've been asked to do some of these heretofore and haven't—we'll have to get the money out of some other part of the defense budget. My belief is that the Triad is absolutely necessary and that we ought to continue to maintain our strategic defenses with the most modern of technology until we know we have rid the world of the scourge of nuclear weapons .

Essentially, the strategic part of this defense budget, as you well know, Mr. Chairman, is about 15 percent of the defense budget. It used to be as high at 16, 17, and 18 percent. And so for those who think by reducing the strategic budget significantly we're going to balance this budget and dramatically reduce defense, I would submit that the new weapons systems that are included in it spend out very, very slowly, so that we would have very little, if any, effect on 1991.

Thank you, Mr. Chairman. It's a pleasure to have the Chairman and Secretary before us.

Chairman **Sasser**. Thank you, Senator Domenici.

We'll turn now to our witnesses, and, Secretary Cheney, we'll begin first with you and then turn to General Powell.

STATEMENT OF HON. DICK CHENEY, SECRETARY OF DEFENSE

Secretary **Cheney**. Thank you very much, Mr. Chairman, members of the committee. It's a pleasure to be before the Senate Budget Committee this morning to discuss a subject that obviously is very, very important and crucial to our deliberations as you put together a budget for fiscal year 1991.

Let me suggest, Mr. Chairman, the way we would like to proceed. I do have a written statement which I will submit for the record.[1] I would then prefer to make an oral presentation, talk about how we do, in fact, see the world changing and what the implications of that may be from the standpoint of our strategy. Then I will call on my colleague, the Chairman of the Joint Chiefs, General Powell, and let him discuss the perspective of the military. And then I would like to close our opening presentation if I might with just a quick overview of what we have done in the defense budget this year. I think that would be a good place for us to begin our deliberations this morning.

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[1] See p. 12.

I think, Mr. Chairman, that I would argue that the budget we're submitting is not business as usual; that, in fact, very much a part of our thinking this year was captured in what the President said in his state of the Union speech last week; that 1989 has, indeed, been a year of revolution; that we've seen fundamental changes in important parts of world and fundamental changes in the military threat to the United States.

We have—I think wisely and prudently—embodied our own views in changes that are in the fiscal year 1991 budget that is before the Congress at this time. Let me, if I can, just summarize some of the more significant changes from our perspective.

I've been Secretary now for a little less than 11 months. Most of the developments that we've all watched and witnessed with great interest over the course of the last 11 months were absolutely not predicted by anyone just a year ago. Within Eastern Europe itself, we've seen a virtual collapse of the Soviet position. All of the Warsaw Pact leaders except Mr. Gorbachev have been replaced since March 1989. We've got a non-Communist head of the Government of Poland. The Communist Party of Hungary has abolished itself and will soon hold free elections. The Czechoslovakian Government is today headed by a man who was imprisoned only a short time ago as a dissident. The German Democratic Republic just last week moved up their scheduled elections to March 18. In Romania, we saw the army join with the people against the security services and topple the Ceausescu regime. And even in Bulgaria this week there have been developments of significance in terms of the winds of reform that are blowing throughout Eastern Europe.

All of this, of course, does have significant military consequences as well. We have, as you indicated in your opening remarks, seen unilateral reductions in the non-Soviet Warsaw Pact forces as they've announced that they plan to reduce their forces. We've seen growing demands for Soviet withdrawal from Eastern Europe, although there are split views there. While some of the solidarity leaders in Poland have called for the Soviets to withdraw troops from Poland, just yesterday General Jaruzelski, who's the President of Poland, of course, has announced that he does not want all Soviet troops withdrawn from Poland.

But, clearly, there is a fundamental shift, if you will, in the quality of the Warsaw Pact at present. Warning time is increasing. The extent to which the Soviets could rely upon their Warsaw Pact allies to participate in an attack against NATO has been significantly reduced.

The Eastern Europeans historically have constituted about 50 percent of the first echelon forces in any hypothetical Warsaw Pact attack against NATO. Clearly, today the likelihood that they would join in such a venture is remote. The Soviets, I think, would have serious doubts about their own allies and would, if they were to undertake such a venture on their own, obviously have to have serious concerns about their rear areas.

A general summary would have to say that the likelihood of a Warsaw Pact attack, which has driven much of our planning for conflict in Europe for the last 40 years, is now very remote. It's not unreasonable to look down the road 5 or 10 years and speculate that at that time we'll see that the Soviets are out of Eastern Europe; that the governments of Eastern Europe will be democratically elected, non-Communist regimes, and that they will no longer constitute much of a military threat in any kind of coherent fashion to the NATO alliance.

Obviously, we've also seen some pretty significant changes in the Soviet Union over the course of the last year. Foremost among these in terms of our own concerns, I think, from a military perspective, has been the willingness of the Soviet Government to allow the Eastern Europeans to pursue a course of self-determination.

Contrary to his predecessors, Mr. Gorbachev has not chosen to intervene with tanks, as the Soviets did in Czechoslovakia, or earlier Hungary in 1956. They're clearly focused on massive internal problems within the Soviet Union: an economy that's an absolute basket case, and major nationalities problems. The troops are no longer a problem in Afghanistan. They've been redeployed to Azerbaijan.

There are signs that military spending has begun to decline in the Soviet Union, and there obviously are major problems within the Soviet military that focus on morale, on their inability to absorb the troops who have already been cut unilaterally, on the difficulties that the nationalities conflicts pose for the internal dynamics of Soviet military, questions about the proper role for the Soviet military in society, and questions about whether or not the Soviet military even has a role in putting down the minority and nationality revolts that they've been forced to deal with in recent days.

Having said all that, I think there are also some reasons for caution that need to be focused on when we talk about what our total requirements are likely to be in the future. Let me, if I can, spend a couple of minutes itemizing what I think are some of the most significant and relevant considerations from that perspective.

The fact of the matter is that the Soviet Union is still the only nation in the world that's capable of destroying us, and they retain that capability today. It is undiminished. They still have massive nuclear forces targeted against the United States and our allies. Their program of modernizing those strategic forces also continues. They will by the mid-1990's have highly capable, very modern, START-constrained but nonetheless very capable nuclear forces. They continue to go forward with the deployment of the rail-mobile SS–24, the road-mobile SS–25 missiles. They continue to go forward with deploying new ballistic missile submarines, building Blackjack bombers, et cetera. We have seen some changes in conventional forces, but even with the changes that we've seen to date, they have a very long way to go to come down to a level approaching our own.

Even after the Soviets withdraw from Eastern Europe, assuming that comes to pass in the next few years, their forces will still be far closer to our friends and allies in Europe than would U.S.

forces stationed in the United States. Even with the Berlin Wall down, there are still some 380,000 Soviet troops stationed today in the German Democratic Republic alone, nearly 600,000 in Eastern Europe. The Soviets continue to excel at producing large quantities of high quality military equipment.

The Soviet tank production is down significantly in 1989, below their historic level, to roughly half of what it's been in prior years, but it is still three times our own. The quality of their tanks is very good. They have been building some of the world's best tanks since World War II, and their ability is undiminished. They continue to produce new generations of sophisticated aircraft and new submarines that increasingly are better in terms of their performance and capabilities.

If we look at Soviet military spending as a percentage of gross national product, I think it would be fair to say they've probably spent themselves into the poorhouse, and that it has had a significant impact upon creating their current difficulties. But they manage, under one estimate, to continue to spend 15 to 17 percent of their gross national product on defense; under another estimate, perhaps as much as 25 percent. So they have a record now for decades of making major military efforts in spite of the tremendous economic difficulties that wrack their economy.

Finally, Mr. Chairman, I think it's important to focus for just a second on the question of access to technology. I believe one of the main considerations that has been driving Soviet determination—determination on the part of the Soviet leadership, in particular Mr. Gorbachev—to pursue perestroika and a restructuring of the Soviet society, has been the gap that exists between Soviet and United States capabilities in terms of our applications of technology to military requirements. I'm convinced that one of the reasons the Soviet military has pursued and supported Mr. Gorbachev's efforts at reform has been their understanding that reform was necessary in order for them to have the technical base they need to be able to match us in terms of military capability.

I think it's reasonable to expect that over the next 5 or 10 years, if current trends continue, that the Soviets will find it easier to gain access to Western technology than they have in the past. We see the COCOM regime breaking down. We see a great desire on the part of many of our European friends and many here in the United States to want to enter into transactions with the Soviets that will, indeed, transfer sophisticated technology with military potential to the Soviet Union. So while you can anticipate a smaller conventional force, I think it's likely to be one that is still well equipped, one that's likely to benefit from improved access to Western technology, and with respect to strategic systems, we see absolutely no diminution whatsoever in terms of their ongoing efforts to build a START-constrained, modern, highly mobile force.

Another key element that I think needs to be considered, Mr. Chairman, which both you and Senator Domenici referenced in your opening remarks, is the question of political developments inside the Soviet Union. Many of the positive developments that I think all of us have welcomed over the course of the last several years have been specifically generated by Mr. Gorbachev and his drives for reform. He has either been the architect of the changes that we've seen, or he has in other cases—for example, in Eastern Europe—been willing to tolerate major changes in far different ways from his predecessors. But there is enormous uncertainty about what fate has in store for the current Soviet political leadership.

An example, of course, last week was the speculation that Mr. Gorbachev would step down as party leader. As we meet today, they've been having a meeting of the Central Committee of the Communist Party in the Soviet Union to consider fundamental reforms in the Soviet political system. Speculation is rampant in the Soviet Union, and has been for months, about what fate has in store for Mr. Gorbachev and his allies.

The current favorable trends that we have obviously been happy to welcome could well be halted by a change at the top. I think some of the revolution of 1989 is, in fact, irreversible. But I think we have to guard against making unwise, unjustified changes in our own security arrangements that are based solely on the stated intentions of a regime that may or may not be able to surmount their current difficulties.

From the standpoint of administration policy, of course, this has a number of implications. First of all, it's clear for everyone—I think the President's made it abundantly clear—that we are very earnest in pursuing as rapidly as possible significant arms control agreements with the current Soviet Government. The President is the one who took the initiative last spring to suggest broadening the categories of controlled items in the conventional force reduction talks in Europe and suggesting for the first time a ceiling on U.S.-Soviet personnel in Europe. The President is the one who, just last week, submitted an even lower ceiling to take advantage of the developments we've seen in Europe in recent months.

We are moving aggressively to negotiate a START agreement on the strategic systems. Later this afternoon, I'll participate in a session where we prepare Secretary Baker for his trip to Moscow, which he will undertake later this week to further those negotiations that are aimed at completing the START agreement this year. But there are many uncertainties related to arms control. We still do not have a START agreement, nor do we have a CFE agreement. With respect to CFE, we do not have final agreement on overall troop levels, on equipment levels, on the allocation of cuts within the alliance. Those are all still under negotiation.

There is a need for us to work within the NATO alliance to look at how we may have to alter our strategy in light of the expected reductions in equipment and manpower.. With respect to START, there are still big questions to be answered that can only be resolved once we have completed a START agreement, including what the exact nature of our post-START forces ought to be—that is, what the mix ought to be between bombers and submarines and land-based ICBM's. There are still unresolved issues on air-launched cruise missiles and sea-launched cruise missiles and nondeployed missiles and a number of other items.

We can begin to think about where we go long term given these developments, but caution is in order until we have these agreements signed, sealed, and delivered.

Finally, Mr. Chairman, let me take just a minute and touch upon the question of broad U.S. strategy in this time of what may well be fundamental change in the world. A number of people have suggested that somehow we need a new strategy or fundamental shift in our strategy. Sometimes I think this is a matter of semantics. Clearly, we need to make some adjustments and adapt our long-term thinking to the changes we've seen in recent months. But we have to proceed very carefully, and we need to remember that the elements of U.S. strategy should be enduring. I don't believe there's any need for radical departures from strategy.

In the past, we have based our fundamental underlying assumptions upon the following considerations: We have relied upon maintaining deterrence, on being able to deter an attack against the United States. We've relied upon a system of alliances in Europe and the Pacific. We've relied upon forward-deployed forces with our allies. We've relied upon the doctrine of flexible response, the need to be able to escalate from conventional to nuclear to strategic systems, should that be required. We've wanted to maintain maritime superiority and control of the world's oceans and to be able to deal with contingencies around the globe.

As I look at those basic enduring elements of our strategy, I don't believe there's any need to fundamentally change any of the underlying principles. For the foreseeable future—especially in light of the fact that the Soviets have not unilaterally reduced any of their strategic systems, we must maintain our own emphasis upon strategic deterrence. Our alliances are going to continue to be important. Forward deployments are going to continue to be important, perhaps at lower levels. That's part of the President's proposal. We are going to continue to want to remain the world's leading naval power. I see no reason why we should give that up. And we're clearly going to want to be able to deal with contingencies such as the Persian Gulf or Panama.

Given the collapse of the Soviet position in Eastern Europe and domestic problems inside the Soviet Union and improving United States-Soviet relations, I think we can contemplate changes in our own force posture and deployment. And those changes are embodied in some of our long-term thinking as well as in the budget that we've submitted for 1991.

As Senator Domenici said so eloquently at the outset, the strategy we've pursued now for over 40 years, a strategy of peace through strength, has directly contributed to the welcome changes that we now see in Eastern Europe and the Soviet Union. And now is not the time for us to decide that we can fundamentally retreat from the posture, the strategy, the deployments that over the years have, in fact, produced the result that we now see as the desire for democracy and freedom that is bursting out all across Eastern Europe and even the Soviet Union itself.

With that, Mr. Chairman, I'd like to ask General Powell to make a few remarks. Then when he finishes, I'd like to present a brief overview of the 1991 budget.

Chairman SASSER. Thank you, Mr. Secretary.

[The prepared statement of Secretary Cheney follows:]

STATEMENT OF THE SECRETARY OF DEFENSE

DICK CHENEY

BEFORE THE

SENATE BUDGET COMMITTEE

IN CONNECTION WITH THE

FY 1991 BUDGET FOR THE DEPARTMENT OF DEFENSE

FEBRUARY 5, 1990

STATEMENT OF SECRETARY OF DEFENSE DICK CHENEY IN CONNECTION WITH THE FY 1991 BUDGET FOR THE DEPARTMENT OF DEFENSE

Mr. Chairman, Members of the Committee:

It is a pleasure for me to come before this Committee to provide the details of the Administration's defense budget for FY 1991. These congressional deliberations come amidst an historic transformation of the global security environment. Our task is to decide how best to preserve America's security, while taking account of and supporting that transformation.

THE CHANGING GLOBAL SECURITY ENVIRONMENT

Changes affecting U.S. security are occurring throughout the world, but most profoundly in the Soviet Union and Eastern Europe. For four decades, the primary concern of NATO has been to deter a potential Soviet-led invasion of Western Europe. Now, instead of tanks and troops moving from East to West, the ideas and institutions of freedom are moving from West to East.

As we view what are clearly positive developments, we have a responsibility to distinguish what is done from what is only promised. The Soviet Union remains an extremely formidable military power. Recent events both in Eastern Europe and the Soviet Union itself have decreased the risk of the Soviets launching a premeditated attack on Western Europe. But the volatility and unpredictability of the situation there has, in many ways, increased the chance of an inadvertent conflict. We cannot know for certain the future course of the current communist upheaval. As President Gorbachev himself has noted, "There are no guarantees that the positive processes [we] have begun are irreversible."

Facing the uncertainty implied by this ongoing transition, America's best stance is steadiness in its defense policies and posture in the short term. We must make our military adjustments with an eye toward genuine reductions in risks, not in anticipation of how we hope global events will evolve.

EVOLVING THREATS TO U.S. NATIONAL SECURITY

While the threat of deliberate aggression in Europe has diminished, the dangers elsewhere are increasing. In the coming decade, U.S. forces must be prepared to cope with the following challenges:

- The Soviet Union. While we expect Soviet forces to shrink, they have diminished only marginally so far, significant military capabilities remain. The Soviet nuclear arsenal is undergoing considerable modernization. Moreover, the Soviets still are working to enhance the overall effectiveness of all their forces. We should not expect the Soviet Union to neglect significantly the only national instrument that makes it a superpower: its substantial nuclear and conventional forces. And while events in Eastern Europe are encouraging, they have not consistently been matched by more promising Soviet actions in Asia or the Third World.

Hard realities tell us that we cannot assume that Moscow's current military restraint will continue. Because of its centralized authority, a future Kremlin could reverse its military course quickly and decisively. What would most enable the world's democracies to reduce their concern about the Soviet Union's future intentions would be its establishment of durable institutions based on freedom and respect for human rights.

- Arms proliferation to potentially hostile states. The diffusion of high technology weapons to potentially hostile nations has greatly complicated America's security picture. At least a half dozen nations are working to acquire nuclear capabilities, and a disturbing number of Third World countries are acquiring sophisticated military arsenals, including long-range missiles and chemical and biological weapons. Moreover, certain of these nations are hostile to U.S. interests and have indicated that they will attempt to assert domination over neighboring areas. As in the case of Iran during its war with Iraq, these states may be willing to expand conflicts in ways destructive of the interests of the United States and its allies. America may find itself compelled to act, as it did in the Persian Gulf, to forestall such efforts when they threaten our national interests, including the safety of our citizens.

- Anti-American regimes. As the case of Manuel Noriega proves, various Third World states may--for a variety of reasons--decide to behave in ways that force a military confrontation with the United States, despite the odds against them. Moreover, many Third World states have acquired the ability to use force far more effectively, and over a longer period of time, than could Noriega.

- Non-state threats. U.S. armed forces are called upon today--and will be in the future--to confront organizations that have proven themselves deeply hostile to American interests and values. These include drug traffickers, anti-democratic insurgents, and terrorist groups.

ADAPTING U.S. DEFENSE STRATEGY TO GLOBAL CHANGES

America's national security strategy should continue to opt for global involvement over isolation. America's enduring global interests require a significant ability to counter threats affecting those interests. We must maintain a forward presence in cooperation with our allies and friends in key areas such as Europe, the Mediterranean, Asia, and the Pacific.

Regardless of whether Soviet military power diminishes, many U.S. allies and interests will continue to face major threats, as in South Korea and the Persian Gulf region.

Additionally, America's global military posture and leadership promotes an international environment in which free peoples and those seeking freedom can prosper. It helps allies and friendly nations follow a course favorable to shaping a better world; supports peaceful change and resolution of international differences; fosters the free flow of goods, people, and ideas; and promotes freedom, human rights, and nonaggressive national behavior. Many nations appreciate the contribution to peaceful progress made by a visible American military presence in their part of the world. Not only does our presence deter Soviet influence, it also can dampen regional arms competition and discourage local powers from seeking to dominate their neighbors.

As we work toward negotiated arms reductions and a better world for all peoples, we should remember that the military strength of America and its allies made possible much of the positive movement we are now seeing, and it will be critical to continued progress. The promising developments in Eastern Europe and the Soviet Union--ultimately brought about by the courage and sacrifices of people yearning to be free--were fostered by the collective resolve of free nations. We contained and opposed communism so that its own political, economic, and moral bankruptcy would be felt at home and would thereby undermine its ruling regimes. Military strength will remain the ultimate safeguard for democratic nations against armed regimes hostile to our interests and values.

America should continue to anchor its strategy to the still-valid doctrines of deterrence, flexible response, forward defense, security alliances, and prudent arms reductions. Even the extraordinary events of 1989 do not mean that America should abandon this strategic foundation. Rather, our task is to analyze our strategy and forces continuously, and adjust them as necessary to meet changing threats and conditions.

The central tenet of America's global strategy is and should remain: to deter aggression against our global interests by maintaining--with our allies--a credible array of military responses, aimed at making the cost of such aggression exceed any possible gains. The great question then is: how many and what kind of forces are needed to do that? With growing uncertainty about the location and severity of our future threats, that question becomes harder to answer. Also complicating our decisions is the fact that the forces we may need in ten years have to be planned and programmed now.

LINKING STRATEGY TO DEFENSE BUDGET DECISIONS

The changing global conditions highlighted above have extensively affected the Department's plans and programs, and they will continue to do so. The most compelling indicator of the extent to which we are taking account of promising global developments is our revised FY 1991-95 Topline. Just a year ago, the President's five-year plan included modest real growth of 1 to 2 percent each year. Now, based on a realistic assessment of America's security threats, I believe our nation can begin to scale back defense funding somewhat without unacceptable risk to its security, if current U.S.-Soviet negotiations bear fruit as expected. The prudent and efficient pace I recommend is roughly a 2 percent per annum real decline in defense budget authority for FY 1991 through FY 1995. **(Chart 1)**

This course will involve a substantial reduction in planned defense resources and continues a steady decline in defense funding that began with FY 1986. By FY 1995, the result will be a cumulative 10-year real decline of 22 percent. Mr Chairman, this FY 1995 level, in constant FY 1990 prices, will be about $262 billion. This is $8 billion below the level which you are quoted as having said would be appropriate for defense in FY 1995, after adjusting for pay raises and inflation.

As a way of comparison, our actual DoD budgets--including the request for FY 1991--will be $208 billion less than the amounts that would have been required to provide zero real growth for FY 1986 through FY 1991. When the projections through FY 1995 are included, our actual budgets will end up $515 billion below what the zero-real-growth level would have been for FY 1986-95. In addition, by 1995 DoD outlays as a percentage of our GNP and of total federal outlays will be the lowest in 50 years. **(Charts 2-5)**

The assumptions allowing this significant reduction in defense resources--and the accompanying reshaping of U.S. forces--are these:

- A continuation of the positive developments in Eastern Europe and the Soviet Union;
- Completion of satisfactory Strategic Arms Reduction Talks (START) and Conventional Armed Forces in Europe (CFE) agreements; and
- No unforeseen, extended commitments for U.S. forces.

As long as these conditions hold, the lower spending I am proposing can keep America's security risks acceptable. However, that requires that we adhere to a rational and coherent process for allocating our limited resources wisely. My

Department is determined to do its part. DoD's senior civilian and military leaders have discussed extensively every major strategic issue affected by the extraordinary events of recent months. We are continuing to reassess our military programs within the context of our evolving defense needs.

BUDGET PRIORITIES

The budget priorities outlined in this section are reflected in my FY 1991 defense request, and they indicate how I believe we should proceed in adapting our current forces to changing global prospects. Taking account of promising security developments and declining budgets, we must preserve the high quality of our forces, even if that means major reductions in our manpower and active force structure. High quality derives mostly from our military people, but it also requires that our weapons and systems be technologically superior. To ensure such superiority, we must restrict access to critical Western technologies, emphasize military research and development, and terminate some older programs to fund more advanced systems.

Whatever systems we decide we need should be acquired as efficiently as possible. That means economical production rates, which may require the deferral or termination of some lower-priority programs. To guard against an unexpected resurgence of security threats, we also should give priority to those elements of our military posture that would be most difficult to restore, if required. For example, America's technological superiority and the high quality of our uniformed men and women would be very hard to restore, if they deteriorated.

Our budget decisions should reflect our confidence that negotiated force reductions are likely, that Soviet attack options will decrease, and that NATO's warning time for a major Soviet attack will increase. We and our Atlantic allies also should plan now to use this scaling back as an opportunity to effect a better allocation of military roles, responsibilities, and other security burdens within NATO.

Below is a further delineation of the specific budget priorities that shaped our FY 1991 defense request and are guiding our plans for FY 1992-97: **(Chart 6)**

- People. We must continue to recruit and retain high-quality military and civilian professionals--emphasizing their training, quality-of-life, and career satisfaction.

- Robust nuclear forces/strategic defenses. Even with sound START and CFE agreements, we will need to develop modern and survivable nuclear forces to ensure that our deterrent has the utmost credibility. We also must vigorously pursue the Strategic Defense Initiative (SDI) program, both because of the

Soviet ballistic missile threat and because of the spread of ballistic missile technologies to other countries. If anything, the new global environment makes SDI even more important. Moreover, at the lower force levels expected under START, the adverse consequences of Soviet cheating will increase. Strategic defenses can offer us some insurance against such cheating and also help discourage it.

- Versatile, ready, deployable, sustainable conventional forces. U.S. conventional forces must be able to respond quickly to diverse contingencies worldwide, and be sustained logistically once committed. Stateside, we need versatile, multi-purpose forces, and sufficient sealift and airlift to deploy them. Overseas, our forward-deployed forces should be as mobile and flexible as possible, so they can support our regional military needs, in addition to deterring aggression where they are based.

- Continued maritime superiority. The United States is a maritime nation, heavily dependent on overseas trade and resources. We therefore need sufficient naval power to ensure our access to critical sea lines of communication, especially in time of crisis or conflict. That also enables us to project adequate military power in areas of U.S. interest, with less reliance on foreign bases or overflight rights.

- Reserve forces and mobilization. Especially with our active forces shrinking, we must continue to improve our ability to mobilize the necessary national resources to meet all possible contingencies. To this end, we must support substantial Reserve forces--including essential logistics, infrastructure, and planning--and preserve a proficient, responsive defense industrial base.

- Special operations forces. The rising threat to U.S. interests of low-intensity conflict--ranging from terrorism to armed insurgencies--keeps our special operations forces especially important. Their unique contributions extend from nation-building and security assistance to participation in large scale conventional operations.

FY 1991 DEFENSE BUDGET REQUEST

The FY 1991 request for the Department of Defense is $295.1 billion in budget authority (2.6 percent below the FY 1990 level, adjusted for inflation) and $292.1 billion in outlays. That is $22.4 billion in budget authority below the President's April 1989 request, after adjusting for the Administration's updated inflation and pay raise assumptions. A reduction of this magnitude forced many difficult, though necessary, decisions throughout the Department. We have begun to reduce the size and the shape of our force structure, we have terminated those programs that are not necessary or that don't work, and we have deferred programs in order to fund others of higher priority. By taking this action, I believe that we have made a prudent downpayment on our response to the global changes taking place, while providing the necessary defense capabilities to ensure our security within existing fiscal constraints. (Chart 7)

Manpower

Active duty end strength by the end of FY 1991 will be 2,038,800, some 91,400 less than the 1989 level and roughly the same level as FY 1980. In fact, Army and Air Force levels will be the lowest since 1950. The ratification of a CFE treaty necessarily will dictate the level of forces in Europe. In anticipation of a favorable outcome of CFE negotiations, I am satisfied that the proposed FY 1991 force structure and manpower reductions will allow for an orderly drawdown of U.S. forces. (Chart 8)

Until the Total Force Study is completed, Selected Reserve end strength will be 1,151,600 in FY 1991, a modest reduction of 3,400 from FY 1990.

Although military pay raises have been modest for the last few years and have not kept pace with changes in private sector pay, the Administration remains committed to the principle of pay comparability and strives to maintain an overall compensation program that can compete with other employment alternatives. Therefore, to protect quality achievements in the force, the FY 1991 request, along with a 3.5 percent pay raise, provides for continued benefits, enlistment and reenlistment bonuses, special pay for critical skills, and continuation of current training levels.

Civilian end strength will be 1,095,741, more than 21,000 fewer people than in FY 1989. In order to achieve the civilian strength levels without a reduction-in-force, a civilian hiring freeze has been imposed.

Force Structure

Adjustments

To move toward a smaller force with acceptable risk, the Army plans to eliminate two active CONUS divisions in FY 1991. The Navy will retire two battleships and begin planning for the deactivation of one nuclear cruiser in FY 1992 and another FY 1994; retire and deactivate three SSN-594 class submarines over and above the three planned for deactivation in the April budget revision; and deactivate two SSN-637 class submarines. The Marine Corps will begin planning for the deactivation of 14 artillery batteries. The Air Force will deactivate 14 B-52 primary authorized aircraft in FY 1990 and will close the associated support activity in FY 1991. (Chart 9)

Revised Program

The FY 1991 budget supports balanced strategic forces that include land, air, sea, and space based systems, as well as air defense interceptors. Land-based missiles and strategic submarines will continue at 1990 levels, and the bomber force will decrease somewhat as older B-52's are phased out.

General purpose forces in FY 1991 comprise a 30 division land force including 16 active (about half of which have reserve roundout brigades) and 10 reserve divisions for the Army and 3 active divisions and 1 reserve division for the Marine Corps. Tactical air forces will include 24 active and 12 reserve air wings for the Air Force, 13 active and 2 reserve carrier air wings for the Navy, and 3 active and 1 reserve wings for the Marine Corps. Naval forces, including 14 deployable carriers, will total 546 battle force ships by the end of FY 1991.

Readiness

Adjustments

The FY 1991 depot maintenance programs were adjusted to reflect retaining backlogs at or near previously-stated levels, for extension of congressional reductions, and for execution and other program-related impacts. The FY 1991 ship maintenance program was reduced because overhaul of the USS ENTERPRISE was funded by the Congress in FY 1990. The Navy also cancelled two SSN-637 class submarine overhauls. Additional savings resulted from more favorable foreign currency exchange rates and adjustments to minor programs due to program execution problems, contract savings, and the impact of congressional action.

Revised Program

The FY 1991 budget supports the effective readiness of our restructured forces. Training operations are continued at the FY 1990 budgeted level. This includes Army ground Operating Tempo (OPTEMPO) at 800 tank miles annually and an air OPTEMPO of 14.5 hours per month. Navy Primary Mission Readiness for tactical air operations continues at a level of 87 percent and ship steaming days for the deployed and non-deployed fleets remain at 50.5 and 29 days per quarter. The Air Force continues to support 19.5 flight hours per month for its tactical air pilots.

In addition, increases in real property maintenance funding will assist materially in arresting the recent rapid growth in the backlog of facilities maintenance and repair. CHAMPUS medical requirements are fully funded and funding for environmental programs is increased to accelerate meeting statutory requirements and to protect the public health.

DoD Counternarcotics Program

The FY 1991 DoD request includes $1.2 billion to fund DoD's aggressive new approaches in the fight against illegal drugs under the President's National Drug Control Strategy and my Counternarcotics Guidance. The Department will continue its demand reduction program for military personnel, which has become a model for other programs. In addition, funds are requested to expand the National Guard assistance to counternarcotics efforts and expand efforts to detect and monitor airborne and maritime drug smugglers. We will also increase our counternarcotics support to law enforcement agencies.

Investment

Adjustments

Our modernization program seeks to avoid costly stretchouts, continue efficient rates of production, and promote the introduction of newer and more survivable weapons. We simply cannot afford to fund programs that do not meet performance requirements or are high cost and of relatively low priority. Needless continuation of these programs would disrupt the effective execution of our entire defense program and increase its cost to a level that cannot be sustained. As a result, we would have to buy weapons that we cannot afford at the expense of higher priority programs essential to the national defense.

Last year we recommended, and the Congress approved, termination of the V-22 Osprey production funding, the F-14D aircraft new production, the Army Helicopter Improvement Program (AHIP), the Phoenix missile, the F-15E aircraft, and the M-88A2 Improved Recovery Vehicle program. In addition, the Congress added funds to the FY 1990 appropriations to complete procurement of the Apache helicopter program, which we had planned to terminate in FY 1991.

The FY 1991 budget continues our philosophy to cut marginal programs or those nearing completion of production runs and recommends terminating 13 more programs, reducing funding requirements by $2.3 billion. M-1 tank production is terminated after the FY 1991 buy. The Detroit tank plant will be laid away in September 1991 after FY 1990 procurement is completed and the Lima tank plant will be laid away, absent foreign military sales purchases that may occur, in March 1993 at the end of the FY 1991 procurement. The Maverick missile program was terminated after the FY 1990 buy due to the limited utility of the program. Other programs were terminated due to schedule slippages, revised requirements or poor reliability and performance. Also, some programs were terminated because viable, less costly, alternatives satisfy mission requirements.

For example, the Army will rely on the Air Defense Anti-Tank System (ADATS) and Pedestal Mounted Stinger for air defense, deferring procurement of the Non-Line-of Sight Missile program and terminating the Chaparral air defense missile. (Chart 10)

In addition to programs recommended for termination, we are proposing to transfer $1.4 billion from FY 1990 to finance the FY 1991 M-1 Abrams Tank program and partially fund the F-15E Aircraft Program. Some of these programs include: Fast Sealift Ships; 16 MH-60G helicopters; the 155mm artillery projectile; and the Minuteman II Guidance Computer Modifications. (Chart 11)

Several other programs are proposed for deferral without transfer. These include funding for an icebreaker from FY 1990, the V-22 advance procurement from FY 1989, and funding for the RDX explosive production facility from FY 1988 and FY 1989. (Chart 12)

We also made significant reductions to other major programs. FY 1991 procurement of the C-17 aircraft has been reduced from 10 to 6 because the FY 1990 congressional reduction rendered the planned FY 1991-93 production rate increases unexecutable. Funding for the Advanced Tactical Fighter, the next generation air superiority fighter for the Air Force and the Navy was reduced, reflecting the delay in initiating Full-Scale Development (FSD). Aircraft modification programs were reduced based on poor prior-year execution, procurement program restructuring to accommodate testing requirements or installation availabilities, and program pricing adjustments. Major deficiencies discovered during operational flight testing caused the Navy to reduce procurement of T-45 Training System aircraft from 24 to 12. Also, changes were made to the pricing and scheduling of the F-15E program and the Defense Support Program. Delays in program execution led to large reductions to communications and electronics programs to reflect more accurately executable program levels.

Revised Program

- Strategic Forces. The FY 1991 budget supports continued modernization of all components of our strategic nuclear triad. Funds are requested for the 18th TRIDENT submarine and 52 TRIDENT II missiles. To provide mobility for the Peacekeeper missile, the budget includes funding for special trains, to be garrisoned at various Air Force installations. In addition, development of the small intercontinental ballistic missile is continued. For the bomber leg of the Triad, 5 B-2 stealth bombers and 100 additional advanced cruise missiles are requested.

- Strategic Defense Initiative. The budget request contains $4.5 billion for the Strategic Defense Initiative (SDI) program, an increase of $.9 billion from FY 1990. Funding is included to pursue aggressively the "brilliant pebbles" space-based interceptor program, as well as a variety of other programs such as ground-based radar, and space-based sensors. A reduced SDI program would undermine our efforts at the Defense and Space Talks in Geneva to get the Soviets to agree to a cooperative transition to a more stable and secure deterrent posture, including strategic defenses. (Chart 13)

- Conventional Forces. Funding for our conventional forces in the FY 1991 budget emphasizes production of key systems at efficient rates of production. Land force modernization is supported by continued production of 600 Bradley Fighting Vehicles. Added lift capability for our assault-support forces is provided by the purchase of 72 UH-60A Blackhawk helicopters. The air defense of our ground forces is enhanced by the continued purchase of the Air Defense-Heavy system, the short-range Stinger missile, and long-range Patriot missile. Funding for naval forces reflects the importance of maintaining maritime superiority by funding 14 new ships. Tactical air force modernization continues with the purchase of 282 new aircraft, including the F-15E and F-16 aircraft for the Air Force, the F/A-18 and E-2C for the Navy, and the AV-8B for the Marine Corps. The Navy will also remanufacture 12 older model F-14A and 3 EA-6B aircraft into the current, more capable, configurations. (Charts 14-16)

- Special Operations Forces. The FY 1991 budget supports the key role Special Operations Forces play in protecting our national security by providing flexible, well-equipped forces that can react quickly to crises ranging from terrorist incidents to major conflicts. Modifications continue to the C-130, MH-47, MH-60, and HH-53 aircraft and related support requirements are funded. The budget also includes funds for the acquisition of weapons, ammunition, and communications equipment for these forces.

- Mobility Programs. Improvements to mobility forces support the increased flexibility required by our restructured forces. Funds are requested for 6 C-17 transport aircraft. We are also continuing the procurement of material-handling equipment for the airlift fleet. Our sealift capabilities will continue to be enhanced by procurement of floating and elevated causeways, utility landing craft, cranes, and other container-handling equipment.

- Research and Development. In the coming decade, U.S. technological superiority will become more important and even more difficult to maintain. Considering the smaller size of our force and especially the global proliferation of advanced weaponry, U.S. forces must sustain their qualitative edge and take advantage of technological progress. The FY 1991 R&D request funds research and development for technology options related to future weapon systems and provides for Independent Research and Development funds to allow defense contractors to explore new technological approaches to defense problems.

Funding continues for the advanced technology work supporting concept evaluation and design for the Army's heavy force modernization program. Development will be completed on the Block II modification package for the M-1 Abrams tank. Funding is provided to continue development on the LHX scout helicopter, including the mission equipment package and the competitive award of the Full-Scale Development contract. Naval programs such as the SSN-21 Submarine Combat System, the A-12 Advanced Tactical Aircraft Program, and the ASW Fixed Distribution System are funded. Air Force programs such as JSTARS, Medium Launch Vehicles, and the Short Range Attack Missile continue. We are also providing funds for the Balanced Technology Initiative, semiconductor manufacturing technology, and NATO RDT&E at approximately the same level as FY 1990. In addition, the budget provides $158 million for the DoD share of continuing efforts on the National Aerospace plane.

- Military Construction. The FY 1991 Military Construction program is a balanced program that funds the minimum amount considered essential to support new weapon systems being deployed, to accomplish new or changed missions, and to provide adequate working conditions for our personnel and quality-of-life support for them and their families. Major programs supported include: Peacekeeper-Rail Garrison; Large Rocket Test Facility; Titan IV Launch Pad; B-2 bomber; and Trident IID. European construction is maintained at approximately the same level as FY 1990.

- Family Housing. The FY 1991 Family Housing program continues to demonstrate the Department's commitment to improving the living conditions of military personnel and their families. The request includes plans to construct or acquire 1,249 new housing units, to improve over 10,600 existing units, and to plan and design future projects. The budget includes request to lease 52,300 overseas units, an increase of 4,900 units over FY 1990.

Base Closure

The FY 1991 request includes $917 million, an increase of $416 million over FY 1990, to defray the implementation costs associated with the recommendations and schedule issued by the Commission on Base Realignments and Closures. Over the FY 1990-FY 1995 time frame, the net savings due to base closures are estimated at $1.2 billion. This consists of one-time implementation costs of $3.4 billion, which are offset by $4.6 billion of cost avoidances, savings, and revenues from anticipated land sales. After FY 1995, annual savings are estimated to be $700 million.

In addition, the Military Departments were requested to select other facility candidates for closure and realignment, which would reduce and relocate functions and personnel positions. The list of candidates, including both domestic and foreign bases, has been provided to the Congress.

DEFENSE MANAGEMENT REPORT

The cornerstone of a more efficient defense program that is higher in quality will be the Defense Management Report (DMR) and the costs savings initiatives it contains. The Report's major thrust is to act on problems, not restudy them. It stresses integrity, long-range planning, better communications DoD-wide, strict accountability of managers for results, teamwork, and innovation. The Report sets targets for management improvement, accompanied by substantial dollar savings. The first major installment of this effort is reflected in actions taken to reduce management costs in the FY 1991 budget. We have identified initiatives that will save about $2.3 billion in FY 1991 and reduce civilian employment by approximately 7,800 and also cut military strength by about 8,600. An additional $2.7 billion will be saved as a result of Army and the Air Force implementation of financing reparables through the stock fund. Over a 5-year period, we think the cumulative savings resulting from all these initiatives will be close to $39 billion, with corresponding reductions of 18,300 civilians and 24,600 military. **(Chart 17)**

Major savings will be made in the area of logistics by better controlling the costs of supplies, repairable items, clothing, and the cost of transportation. Also, the Military Departments are planning to restructure their logistical commands and depots, thereby making substantial savings in personnel and operating costs.

A reduction in administrative costs for the Military Departments and Defense Agencies will result in significant savings. The Departments will cut back on headquarters staffs, reduce travel, and streamline overhead functions at various activities. Defense Agencies and the Office of the Secretary of Defense will also streamline their operations.

Automated support and information systems are also targeted for management improvement. Although the savings are small in the first year due to the need for initial investment, we believe the Department can save over $4.3 billion in the long-term through reducing ADP development costs and by eliminating multiple development efforts aimed at satisfying the same or similar requirements.

DoD also plans improvements in financial operations, procurement, and contract administration. The major savings in FY 1991 will result from a reduction in the use of consultants, outside advisors, and other contractually-arranged assistance. But of equal significance for future operations will be the establishment of consolidated contract management and the development of stronger controls over government-owned material furnished to contractors. Also, the Navy will begin aggregating ship procurements into larger yearly lots, without increasing the total planned buy, in order to gain economies of scale in procurement of materials.

The Deputy Secretary has directed that a number of DoD functions be studied in order to develop plans for potential consolidations or other management efficiencies. These functions include supply depots, inventory control points, maintenance depots, accounting and finance centers, ADP design and operations centers, and R&D labs and test facilities. During the coming year we will be looking for other areas to improve management, and we fully expect that the principles embodied in the DMR will enable us to develop additional savings next year, and in subsequent years.

LEGISLATIVE PROPOSALS, REGULATORY, AND POLICY CHANGES

In addition to budget actions and planned reviews, we are also developing a set of legislative proposals to foster the goals of the Defense Management Report. These proposals will involve such areas as production, acquisition and logistics, personnel, environment, and financial management. The recommended changes will enable the Department to take a number of broad ranging actions which will produce economies and efficiencies in many functional areas. In addition, I recommend that the Congress review the entire statutory framework governing defense acquisition management.

I also ask that the Congress review the number and cost of reporting requirements levied on the Department during the course of the annual congressional review. Since 1970, the number of reports and studies has increased by over 2,300 percent. In FY 1989, the total cost of complying with congressional reporting requirements was $33 million and almost 509,000 man-hours. Many of these reports are quite complex and time-consuming and divert resources from higher priority projects. I strongly believe that many of these reports are unnecessary and waste manpower and financial resources at a time when those resources are shrinking. I hope that we would be able to work together to reduce this burden.

LONG-TERM DEFENSE PROGRAM

The current situation underscores the difficulty in planning, programming, and budgeting for long-term defense requirements. Three years ago, when the FY 1990/FY 1991 budget was in its initial planning phase, no one could have forecast the extent of the changes that were to occur in Europe, nor reflected those changes in a detailed composition of future defense budgets. Since that time, the FY 1991 budget has undergone numerous changes. Its size and content are now fundamentally different than they were three years ago. The FY 1991 budget is a very important transition in the rethinking of our requirements in response to changes in the world. This budget and future funding targets are set at a 2 percent annual rate of real decline. The next step is to develop a detailed program within that guidance.

We are now working to develop a program for FY 1992-1997 that takes further account of the changes in Eastern Europe and the Warsaw Pact. The Defense Planning Guidance outlining our overall policy and military strategy for this period has been issued and the fiscal guidance for this program will reflect changing missions and force priorities. We have also begun a detailed review of the requirements for, and alternatives to, four major aircraft programs now planned for acquisition. The proposals resulting from this study along with others from my staff and recommendations by the Military Departments could lead to additional changes to our force structure. For example, it might be possible to cut 3 Army divisions, 5 Air Wings, and a large number of ships and rethink the composition of our battle groups. However, as I stated before, the adjustments we made in FY 1991 and those we will make in future years are heavily contingent upon successful implementation of negotiated force reductions and a greatly improved warning time to react to hostilities. Successful CFE and START negotiations indeed could redefine our strategic posture that exists today and could result in dramatic changes in the size and makeup in our forces. But, we must guard against making irreversible changes in advance of successful negotiations.

CONCLUSION

In sum, promising security developments in Eastern Europe and elsewhere now make it prudent for America to begin to reshape its military posture. However, we must proceed cautiously and efficiently. We must gear our defense adjustments to actual changes in the threats facing us. We must coordinate our actions with our allies and with our arms reduction negotiations. Finally, we must allocate our defense dollars to produce the military capabilities our national security requires, not to satisfy domestic political or economic concerns.

I look forward to working with Congressional leaders as we consider how best to preserve our security and extend this past year's welcome rush toward freedom, economic opportunity, and responsive government.

CHART # 1

FY 1991 DoD BUDGET
BUDGET AUTHORITY
($ in Billions)

	1990	1991	1992	1993	1994	Cum 90-94
April 1989 Plan * (0,1,1,2,2% Real Growth)	295.6	317.5	332.4	351.0	369.4	1,665.9
Reduction	-4.2	-22.4	-32.4	-46.6	-61.4	-167.0
January 1990 Plan (-2% Real Growth)	291.4	295.1	300.0	304.4	308.0	1,498.9

* Adjusted for final economic assumptions

CHART # 2

DOD BUDGET AUTHORITY
(Dollars in Billions)

FISCAL YEAR	ACTUAL /PLANNED		REAL GROWTH	
	CURRENT $	FY 1985 $	ANNUAL	CUMULATIVE
1985	287	287	-	-
1986	281	274	-4.4%	-4.4%
1987	279	263	-3.8%	-8.1%
1988	284	258	-2.1%	-10.0%
1989	291	255	-1.3%	-11.2%
1990	291	247	-2.7%	-13.6%
1991	295	241	-2.6%	-15.9%
1992	300	236	-2.0%	-17.6%
1993	304	232	-2.0%	-19.2%
1994	308	227	-2.0%	-20.8%
1995	312	223	-2.0%	-22.4%

CHART # 3

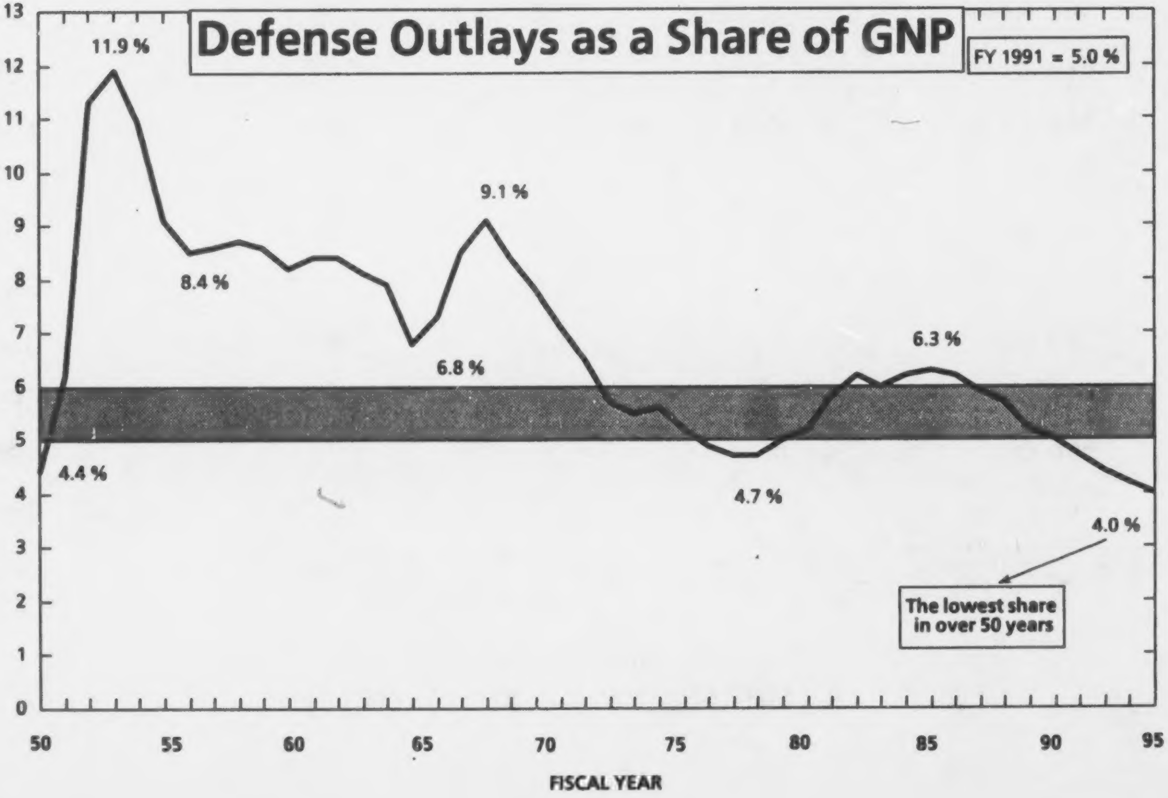

Defense Outlays as a Share of GNP
FY 1991 = 5.0 %
11.9 %
8.4 %
9.1 %
6.8 %
4.4 %
4.7 %
6.3 %
4.0 %
The lowest share in over 50 years
13
12
11
10
9
8
7
6
5
4
3
2
1
0
50
55
60
65
70
75
80
85
90
95
FISCAL YEAR

CHART # 4

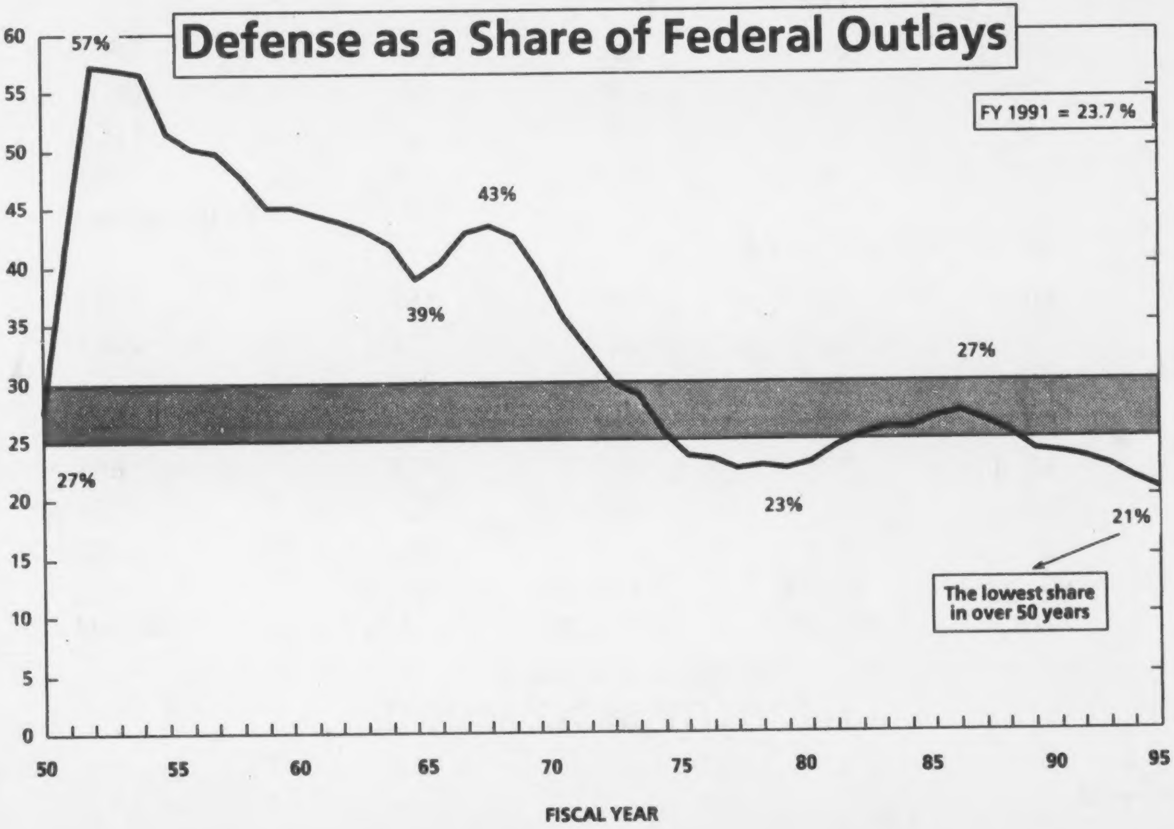

Defense as a Share of Federal Outlays
FY 1991 = 23.7 %
57%
43%
39%
27%
27%
23%
21%
The lowest share in over 50 years
60
55
50
45
40
35
30
25
20
15
10
5
0
50
55
60
65
70
75
80
85
90
95
FISCAL YEAR

CHART # 5

DOD BUDGET AUTHORITY
(Dollars in Billions)

FISCAL YEAR	0 % REAL GROWTH	ACTUAL / PLANNED	ANNUAL DELTA	CUM DELTA
1985	287	287	0	0
1986	295	281	- 13	- 13
1987	304	279	- 25	- 38
1988	315	284	- 32	- 69
1989	328	291	- 37	-106
1990	337	291	- 46	-152
1991	351	295	- 56	-208
			FY 85-91 Total = -208	
PROJECTION				
1992	364	300	- 64	-272
1993	377	304	- 72	-344
1994	389	308	- 81	-425
1995	402	312	- 90	-515
		FY 92-95 Total = -307		
			FY 85-95 Total = -515	

CHART # 6

DEFENSE PRIORITIES

- PERSONNEL/QUALITY OF LIFE
- READINESS
- STRATEGIC MODERNIZATION
- MARITIME SUPERIORITY
- EFFICIENT PRODUCTION RATES
- MAINTAIN TECHNOLOGY BASE

CHART # 7

FY 1991 DoD BUDGET CHRONOLOGY
BUDGET AUTHORITY
($ in Billions)

APRIL 1989 REQUEST	311.0
REVISED INFLATION	+ 6.5
ADJUSTED APRIL 1989 BUDGET	317.5
REDUCTION TO MEET REVISED LEVEL	-22.4
JANUARY 1990 REQUEST	295.1

CHART # 8

FY 1991 DoD BUDGET
MANPOWER
(End Strength In Thousands)

	FY 1989	Delta	FY 1990	Delta	FY 1991	CUM DELTA 1989-1991
ACTIVE MILITARY						
ARMY	770	-26	744	-17	728	-42
NAVY	593	-2	591	-6	585	-8
MARINE CORPS	197	-	197	-	197	-
AIR FORCE	571	-26	545	-15	530	-41
TOTAL ACTIVE	2,130	-54	2,076	-38	2,039	-91
SELECTED RESERVES	1,171	-16	1,155	-3	1,152	-19
CIVILIANS	1,117	-16	1,101	-5	1,096	-21

CHART # 9

FORCE STRUCTURE CHANGES IN THE FY 1991 BUDGET
(Dollars in Millions)

	FY 1991	FY 1992-1994
Deactivate Two Army Divisions	-1,227	-4,940
Retire Two Battleships	-75	-534
Retire Two Nuclear Cruisers	+ 9	+ 99
Deactivate 8 SSNs	-232	-105
Marine Corps Artillery Batteries	-5	-44
Deactivate 14 B-52s	-71	-246
Minuteman II	-128	TBD
WC-130 Weather Reconnaissance	+ 5	-
TOTAL	**-1,724**	**-5,770**

CHART # 10

PROGRAMS TERMINATED IN THE FY 1991 BUDGET

($ in Millions)

SYSTEM	FY 1991	FY 1991-1994
V-22 OSPREY	(-1,395) *	-6,468
F-14D Aircraft	(-469) *	-1,991
Army Helicopter Improvement Program (AHIP)	(-328) *	-1,400
PHOENIX Missile	(-333) *	-614
M-88A2 Improved Recovery Vehicle	(-90) *	-309
F-15E Aircraft	(+ 303) *	-3,317
Apache Helicopter	-682	-2,528
M-1 Tank	-1,086	-6,249
Maverick Missile	-367	-743
Air Force Airborne Self Protection Jammer	-264	-1,199
Combined Effects Munition	-142	-399
SEA LANCE ASW Standoff Weapon	-156	-975
Non-Line-of-Sight Missile	-131	-1,202
Advanced Short Range Air-to-Air Missile	-7	-46
Follow on to F-4G Wild Weasel	-12	-176
Air Base Survivability	-19	-130
Chaparral Missile	-26	-157
MK 19 Grenade Launcher	-20	-130
OV-1D Aircraft Mod Program	-37	-120
Autonomous Precision Guided Munition	-27	-114
TOTAL	**-2,976**	**-28,267**

* Terminated in FY 1990 Budget.

CHART # 11

FY 1990 TRANSFERS *

(\$ in Millions)

SYSTEM	AMOUNT
OV-1D Aircraft Mods	-16
M483 155 mm Artillery Projectile	-90
HARM Missile	-69
Fast Sealift Ships	-592
MH-60G Helicopter	-151
F-4G Wild Weasel	-31
Combined Effects Munition	-70
Minuteman II Mods	-76
National Guard & Reserve Equipment	-41
Military Construction Projects	-91
Other Programs	-132
TOTAL	**-1,359**

* Funds transferred to finance FY 1991 final buy of M-1 Tank and F-15E Aircraft.

CHART # 12

PROGRAMS DEFERRED WITHOUT TRANSFER
($ in Millions)

SYSTEM	AMOUNT
RDX Facility from FY 1988	-238
RDX Facility from FY 1989	-72
V-22 Advanced Procurement from FY 1989	-200
Icebreaker from FY 1990	-325
TOTAL	**-835**

CHART # 13

FY 1991 STRATEGIC FORCES

SYSTEM	QUANTITY	DOLLARS
B-2A Bomber	5	5,536
Strategic Defense Initiative	-	4,471
TRIDENT Submarine	1	1,453
TRIDENT II Missile	52	1,746
PEACEKEEPER/Rail Garrison	12	2,836
Small ICBM	-	202

CHART # 14

FY 1991 LAND FORCES

SYSTEM	QUANTITY	DOLLARS
UH-60 helicopters	72	469
Abrams M-1 tanks	225	838 *
Bradley Fighting Vehicles	600	695
Patriot Missile	817	909
Air Defense-Heavy System	220	272
STINGER Missile	6,922	252
TOW-2	13,946	272
Multiple Launch Rocket System	24,000	389

* Financed by transfers from prior years.

CHART # 15

FY 1991 NAVAL FORCES

SYSTEM	QUANTITY	DOLLARS
SSN-21 Seawolf Attack Submarines	2	3,669
DDG-51 AEGIS Destroyers	5	3,681
LHD-1 Amphibious Ship	1	971
LSD-41 Cargo Variant	1	240
MHC Coastal Minehunter	3	281
AGOR Oceanographic Research Ships	1	48
AOE Multiproduct Ship	1	416

CHART # 16

FY 1991 TACTICAL AIR FORCES

SYSTEM	QUANTITY	DOLLARS
F-15E Fighter Aircraft	36	1,845 *
F-16D Fighter Aircraft	150	2,973
F/A-18 Fighter Aircraft	66	2,123
AV-8B Attack Aircraft	24	566
E-2C Surveillance Aircraft	6	449
Remanufacture F-14D Fighter Aircraft	12	1,118
Remanufacture EA-6B Aircraft	3	374

* Partially financed by transfers from prior years ($499 million).

CHART # 17

DMR SAVINGS IN THE FY 1991 DoD BUDGET
(Dollars in Millions)

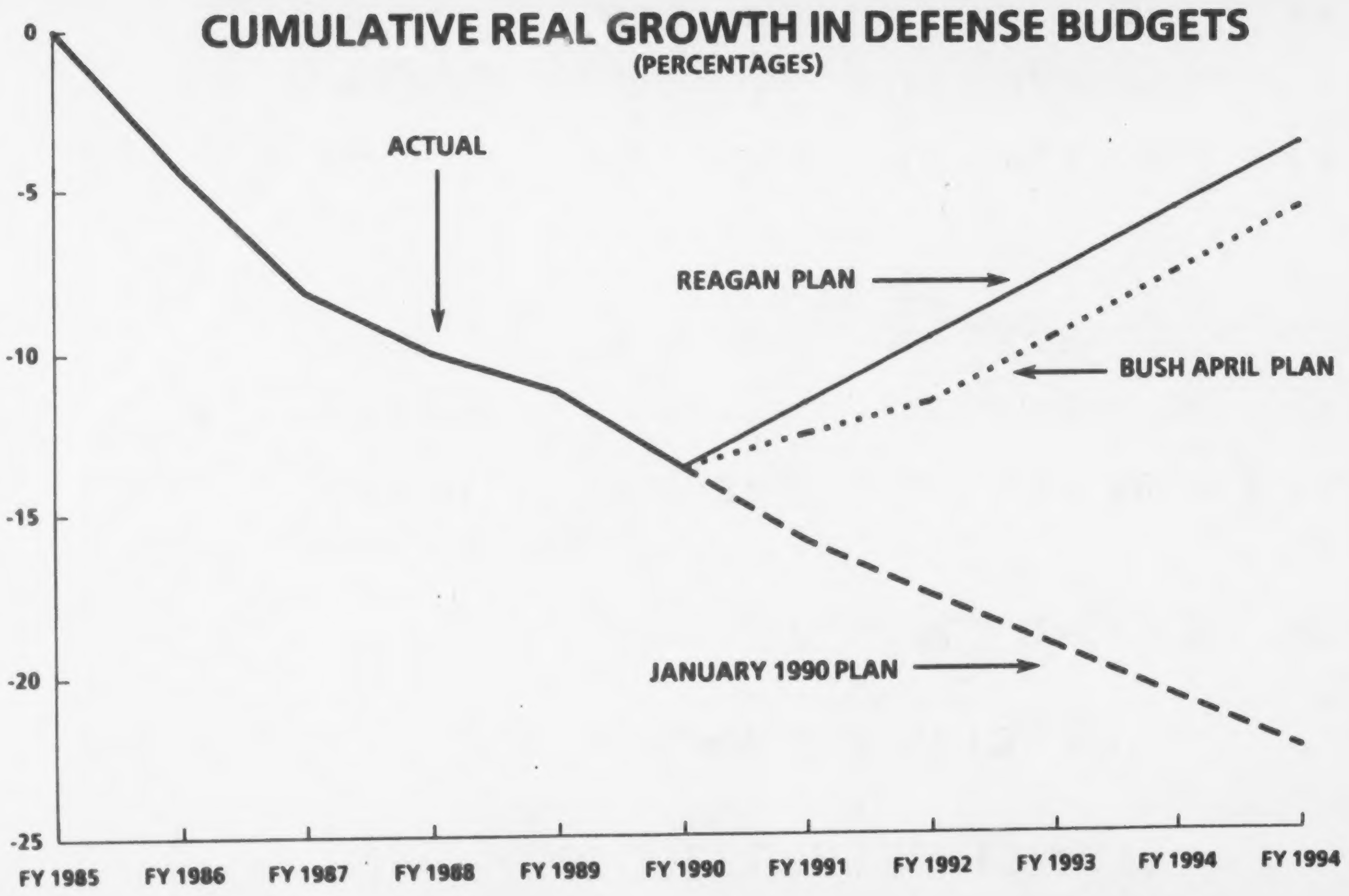
CATEGORY	FY 1991	TOTAL FY 1991-1995
Logistics/Acquisition	1,450	21,000
Administration	300	3,700
Civilian Substitution	20	500
Automated Support & Information Systems	30	4,300
Finance, Procurement & Contract Management	200	3,900
Consolidation Studies	300	5,600
TOTAL SAVINGS	**2,300**	**39,000**
MANPOWER		
Civilians	7,800	18,300
Military	8,600	24,600

SECDEF BRIEFING CHARTS

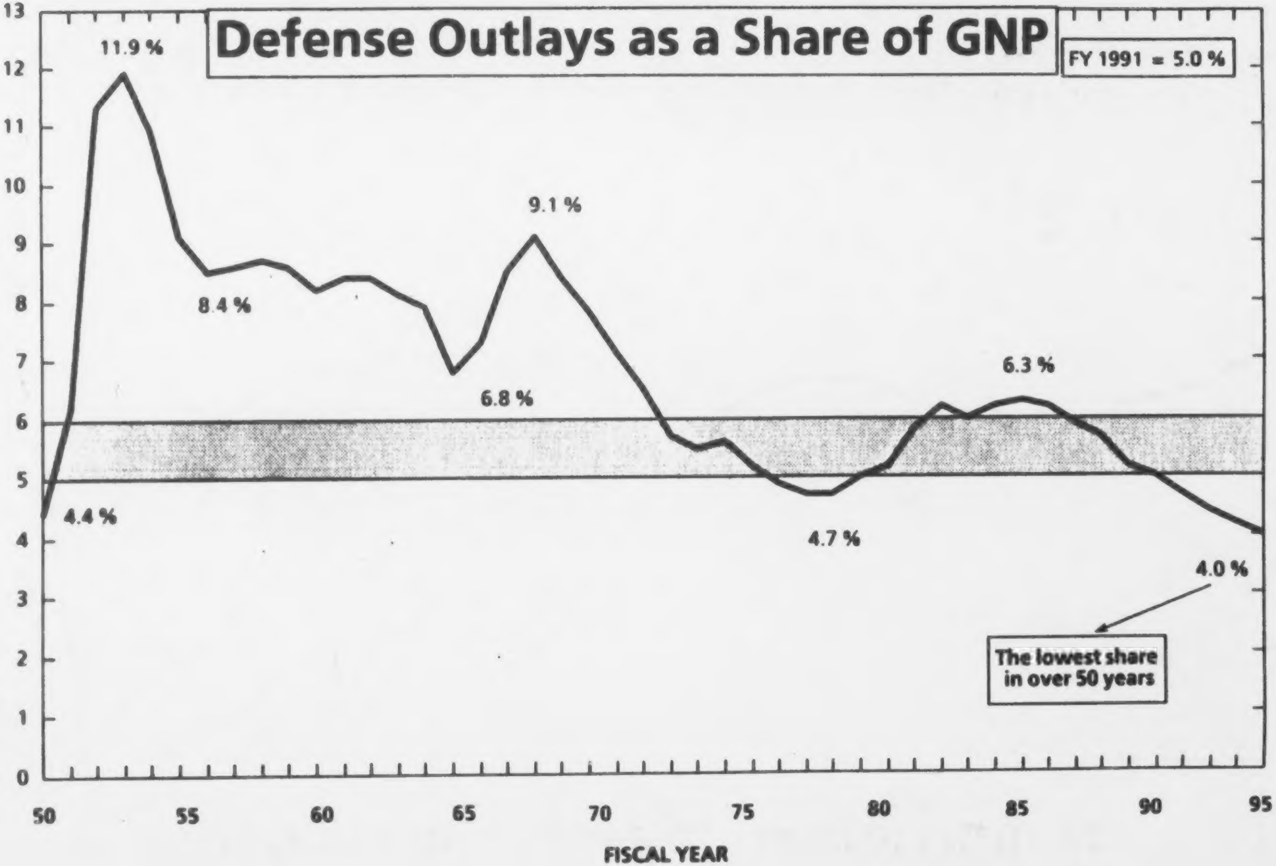
NATIONAL DEFENSE TOPLINE

(Current $ Billions)

	1990	1991	1992	1993	1994	1995
BUDGET AUTHORITY						
DoD 051	**291.4**	**295.1**	**300.0**	**304.4**	**308.0**	**311.8**
DoE & Other	10.3	11.7	12.6	13.1	13.6	13.9
TOTAL 050	301.6	306.9	312.5	317.5	321.6	325.7
OUTLAYS						
DoD 051	**286.8**	**292.1**	**296.9**	**299.0**	**302.3**	**304.8**
DoE & Other	9.6	11.1	12.3	12.9	13.4	13.7
TOTAL 050	296.3	303.3	309.2	311.9	315.7	318.6



CUMULATIVE REAL GROWTH IN DEFENSE BUDGETS
(PERCENTAGES)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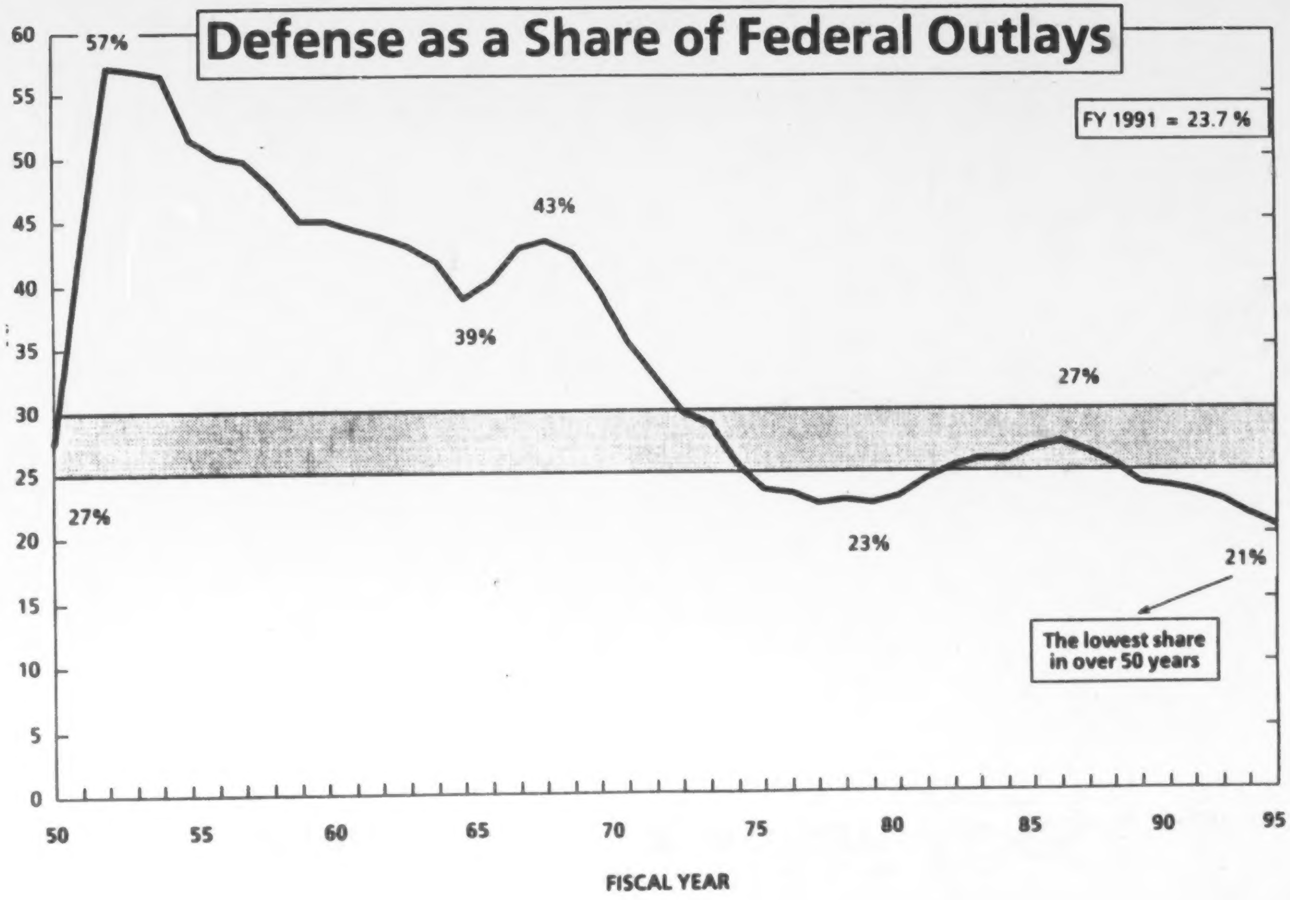
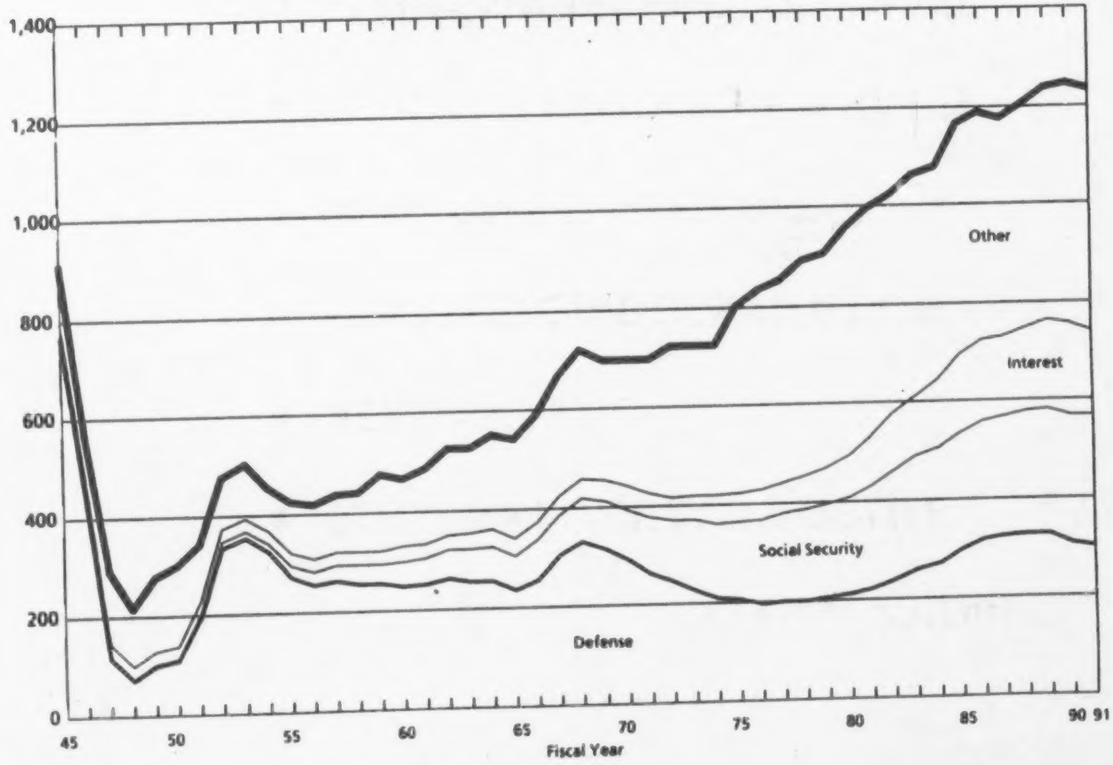
FISCAL YEAR



Defense as a Share of Federal Outlays

Total Federal Outlays

(Billions of FY 91 Dollars)



DEFENSE PRIORITIES

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- EFFICIENT PRODUCTION RATES
- MAINTAIN TECHNOLOGY BASE

DEFENSE CUTS SINCE JANUARY 1989

- The FY 1990-FY 1994 Plan was reduced by $64.2 billion in the April 1989 Budget Revision.
- The FY 1990-FY 1994 Plan was reduced by an additional $167.0 billion in January 1990.
- The Defense Management Report contains reductions of $ 39 billion.
- Reductions to the FY 1991 Program amount to $ 22.4 billion since the Budget Agreement in April, including:
    - Program Terminations,
    - Base Closures,
    - Force Structure Cuts,
    - Deferrals,
    - Civilian Hiring Freeze, and
    - Military Construction Freeze.

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($ in Millions)

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TOTAL	**-1,724**	**-5,770**

POTENTIAL OUTYEAR ADJUSTMENTS

- FY 1992-1994 approved topline requires reduction of $141 billion from April. (Overall 1990-1994 reduction is $167 Billion.)

- FY 1991 budget decisions (terminations, force structure adjustments, etc.) will reduce outyears by about $30 billion.

- Defense Management Report initiatives will save about $25 billion (1992-1994 share of $39 billion for 1992-1995).

- Early ratification of CFE & START, along with aggressive follow-on to CFE will allow reductions along the following lines:

    - 3 Additional Army Divisions;
    - 5 Air Force Tactical Air Wings;
    - Reexamination of TRIDENT and other ship construction;
    - Guard & Reserve manpower reductions; and
    - Military & Civilian strength reductions.

- Reviews are currently underway on B-2, C-17, ATA, ATF and SDI Programs.

Base Closure Commission

Closures

Army

Alabama Ammunition Plant, AL
Army Material Technology Lab, MA
Cameron Station, VA
Coosa River Annex, AL
Fort Douglas, UT
Fort Sheridan, IL
Fort Wingate, NM
Hamilton Army Airfield, CA
Jefferson Proving Ground, IN
Kapalama Military Reservation, HI
Lexington Army Depot, KY
Navajo Depot Activity, AZ
New Orleans Terminal, LA
Pontiac Storage Activity, MI
Presidio of SF, CA
Tacony Warehouse, PA
7 Minor Closures
52 Housing Areas

Navy

Brooklyn NS, NY
Galveston NS, TX
Hunters Point NS, CA
Lake Charles NS, LA
Phila. Naval Hospital, PA
Sand Point NS, WA
2 Minor Closures

Air Force

Chanute AFB, IL
George AFB, CA
Mather AFB, CA
Norton AFB, CA
Pease AFB, NH

Major Realignments

Army

Fort Bliss, TX
Fort Des Moines, IA
Fort Dix, NJ
Fort Holabird, MD
Fort Huachuca, AZ
Fort Meade, MD
Indiana Army Ammunition Plant, IN
Pueblo Depot, CO
Umatilla Depot, OR

Navy

Long Beach NS, CA

Air Force

Davis Monthan AFB, AZ

Department of Defense - Overseas

Bermuda Naval Air Station (Partial Drawdown)
Comiso Air Base, Italy
Erhac Air Base, Turkey
Eskisehir Munitions Storage Site, Turkey
Hellenikon Air Base, Greece
Kwang-Ju Air Base, Korea
Nea Makri Naval Communications Station, Greece
RAF Fairford, UK
RAF Greenham Common, UK
RAF Wethersfield, UK
San Miguel Naval Comm Sta, Philippines (Realignment)
Suwon Air Base, Korea
Taegu Air Base, Korea
Zweibrucken Air Base, Germany

Department of Defense - Domestic

Department of Army

- Army Ammunition Plants
  - Indiana Plant, Charlestown, IN
  - Kansas Plant, Parsons, KS
  - Longhorn Plant, Karnack, TX
  - Louisiana Plant, Minden, LA
  - Mississippi Plant, Picayune, MS
  - Scranton Plant, Scranton, PA
  - Sunflower Plant, Desoto, KS
- Army Material Command (Realignment)
  - Headquarters AMC, Alexandria, VA
  - Depot Systems Command, Letterkenny Depot, PA
  - Eleven Management Engineering Activities
- Detroit Army Tank Plant, MI
- Fort Knox, KY (Force Reduction)
- Fort Ord, CA
- Fort McClellan, AL
- Fort Hood, TX (Force Reduction)
- Fort Lewis, WA (Force Reduction)
- Fort Gillem, GA
- Headquarters, 4th US Army, Ft Sheridan, IL
- Headquarters, 1st Criminal Investigation Command Region, Ft Meade, MD
- Headquarters, USA Health Services Command, Ft Sam Houston, TX
- Information Systems Command (Realignment)
- Lima Army Tank Plant, OH
- Red River Army Depot, TX (Realignment)
- Reserve Component (Force Reduction)
- Sacramento Army Depot, CA
- US Army Troop Support Command, St Louis, MO

Department of Defense - Domestic
(Continued)

Department of Navy

Alameda Naval Aviation Depot, CA
Alameda Naval Air Station, CA
Chase Field Naval Air Station, TX
Detroit Naval Air Facility, MI
El Centro Naval Air Facility, CA
Long Beach Naval Shipyard, CA
Louisville Naval Ordnance Station, KY
Moffett Field Naval Air Station, CA
Oakland Naval Hospital, CA
Oakland Naval Supply Center, CA
Philadelphia Naval Station, PA
Philadelphia Naval Shipyard, PA
South Weymouth Naval Air Station, MA
Treasure Island Naval Station, CA

Department of Air Force

Bergstrom AFB, TX
Contract Management Division, Kirtland AFB, NM
Eaker AFB, AR
Los Angeles AFB, CA
Myrtle Beach AFB, SC
Tonapah Research Site, NV (Realignment)

Defense Logistics Agency

Defense Contract Administration Services Region, Cleveland, OH
Defense Contract Administration Services Region, Dallas, TX
Defense Contract Administration Services Region, New York, NY
Defense Contract Administration Services Region, St Louis, MO

Department of Defense - Domestic

(Continued)

Major Air Force Realignments

Andrews AFB, MD
Bangor Air Guard Station, ME
Davis-Monthan AFB, AZ
Edwards AFB, CA
Eglin AFB, FL
Hanscom AFB, MA
Hill AFB, UT
Kelly AFB, TX
Kirtland AFB, NM
Luke AFB, AZ
MacDill AFB, FL
McClellan AFB, CA
Nellis AFB, NV
Robins AFB, GA
Tinker AFB, OK
Wright-Patterson AFB, OH

Chairman SASSER. General Powell.

STATEMENT OF GENERAL COLIN L. POWELL, USA, CHAIRMAN, JOINT CHIEFS OF STAFF

General POWELL. Thank you, Mr. Chairman. It is a great pleasure for me to make my first appearance before the committee. I too have a prepared statement which I would like to submit for the record,[1] and I would like the opportunity to make a few opening remarks just to complement what the Secretary has said.

Mr. Chairman, the Joint Chiefs of Staff, the Commanders in Chief of the Unified and Specified Commands and I have worked very closely with Secretary Cheney in recent months to put the 1991 budget together. I can assure you that it definitely was not business as usual. For the first time in my many years in the Pentagon, we were working on a negative growth budget—a negative growth budget that we all knew would lead to reduced forces and reduced structure. We too see these rapidly changing events around the world. We don't have our heads in the sand. We're not a bunch of "Colonel Blimp's" who can't understand that the world is changing. So we welcome the opportunity to restructure and reshape our forces for the new world that we see opening up before us.

At the same time, Mr. Chairman, we want our Armed Forces to remain the greatest Armed Forces on the face of the earth, just as Senator Domenici mentioned a few moments ago, and so we want to enter this brave, new world in a rather prudent, cautious way and make sure that we don't break up the fine Armed Forces that we have rebuilt over the last 10 years.

So as we look at this new fascinating era, I think there are certain enduring truths that we should not overlook. The first of these enduring truths is that the Soviet Union, regardless of what transpires in the years ahead, will remain a military superpower, restructured, reformed, less offensive, seeking entry into the world system, but always, always, with the ability to put the United States and its interest at military risk. And nowhere is this more true than in the strategic nuclear forces environment.

The Soviet empire may well be transforming itself into a new benign form, or it may be taking a breather, shedding problems and solving problems, retrenching for the future. I hope for the former, but as the principal military adviser to the President and the Secretary, I cannot ignore the latter.

I think we must also remember that we are a superpower with worldwide interests that go beyond just Europe. We are the leader of great alliances in the Atlantic and the Pacific, and we are also the hope of the Third World, and to lead, to provide hope, we must remain strong. We must always make sure, Mr. Chairman, that whatever happens in the world, we are prepared to deal with a world that is probably less stable, a little more uncertain. We must always be prepared to deal with the contingency that nobody expected, the crisis that nobody knew was coming along.

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[1] See p. 64.

Mr. Chairman, I owe the Congress a Joint Military Net Assessment which we have just about completed. We'll be sending it to the Secretary, and he will be forwarding it to you shortly. I would like to say a few words about that Net Assessment for the benefit of the members.

As we did that Net Assessment, the greatest challenge we had was in assessing the direction, scope, pace, and momentum of the changes in Soviet military strength. On the one hand, we saw convincing evidence that President Gorbachev intends to carry through his plans for unilateral cuts, for reducing the more threatening aspects of his forces, and for achieving arms control breakthroughs. Conversely, it is also clear that he intends to take every opportunity to make virtue of necessity.

Thus, even as Soviet unilateral troop cuts in Eastern Europe proceed apace, much of the residual equipment is serving to modernize remaining units. While forces are being withdrawn into the Soviet Union—a process which may well accelerate in the months ahead—their long-term status is unknown. And there can be no doubt that Soviet military planners will make the case for a sizable reserve and a credible mobilization capability. Moreover, despite the promise of a START agreement in 1990, the Soviets' stable, long-term strategic modernization programs have produced a daunting nuclear force posture, and will continue to do so.

The Soviets for some time have been shaping their strategic nuclear modernization program to be compliant with future treaty constraints. We can expect continual upgrading of ICBM's, SSBN's, and bombers throughout the coming decade. Such upgrading will make these systems increasingly accurate and place our forces at increasing risk. Soviet forces will also be more survivable. Today, the Soviets have already deployed a significant number of their planned rail-based SS-24's and their road-mobile SS-25's. As you well know, we have yet to field a mobile system with comparable capability. By the mid- to late 1990's, Soviet mobile systems could comprise one-half of their total ICBM force. To continue to provide a credible deterrent, we also need mobile missiles and systems such as the B-2 that are capable of holding at risk these Soviet mobile missiles.

The bottom line is that the Soviets are going to have a modern Triad with mobiles, both before START and after START. Mr. Chairman, in answer to your question as to whether they have selected guns or butter, with respect to strategic modernization and strategic systems, they have selected guns at the expense of butter. They consider those systems their crown jewels. We should consider ours likewise and make sure that we have modern systems as well.

The Soviets have also constructed an impressive system of strategic communications facilities and both hardened and mobile command posts. In addition, they have continued to modernize their treaty compliant Moscow ABM system consisting of radars and two classes of missiles. These improvements, coupled with their robust air defense systems, mean that we will have to modernize our systems so that those systems can reach potential targets with the assurance we require.

Soviet space programs are geared more toward warfighting than ours. Their systems are expected to continue to improve, but at potentially reduced rates. As you know, we are only now taking steps to realize similar capabilities. To ensure our access to space and to deny a haven in space to any enemy in time of crisis, we need the antisatellite program that is under development.

In assessing conventional forces in Europe, non-Soviet Warsaw Pact nations currently furnish 40 percent of the forces in the central region and 50 percent of those in the southern region. Thus, considering the new political orientation of non-Soviet Warsaw Pact nations, our judgments clearly accept a significant reduction in Warsaw Pact capabilities as well as a dramatic diminution in the likelihood of East-West hostilities. But while taking into account current political upheaval as well as Soviet unilateral reductions, we noted that considerable conventional force asymmetries remain and will remain for some time to come.

In the Pacific, it is unlikely that the Soviets would initiate hostilities which threaten our interests. Much of Soviet attention will remain focused on their bilateral concerns with China. As part of their general force reductions, the Soviets have begun to draw down land and air forces in Mongolia, throughout the Eastern districts, and at Cam Ranh Bay. Additionally, the readiness of the Soviet Pacific fleet will decline somewhat as older ships are retired.

On the Korean peninsula, although there have been signs of a desire to talk, the dialogue thus far between Seoul and Pyongyang has done nothing to convince us that the North Koreans want to change the confrontational relationship.

In other theaters throughout the world, Mr. Chairman, we can continue to meet our military requirements. I believe that the recent operations in Panama ably demonstrated our ability to rapidly respond to crisis.

Mr. Chairman, my longer net assessment will deal with all of these issues in greater detail. I just wanted to make the point that we are looking at the changes throughout the world. We see an improving situation in Eastern Europe. We take note that we do have worldwide interests, and we believe that the force structure we have now and we would like to build down to in the future can deal with our necessities around the world.

I'd like to just reinforce what the Secretary said about our strategy, Mr. Chairman. A lot of people say, we need a new one. Others say there's nothing wrong with the old one. However you choose to characterize it, the strategy has to have certain key essentials in it. The first key essential is deterrent strength. Deterrent strength is the key to peace. We should never let any adversary doubt our peaceful intention, but at the same time, we must never let any adversary doubt our willingness to bear arms in our defense. We must never let any adversary question the strength of those arms.

The second element is that we must remain faithful to our friends and allies who have collectively stood with us for 40 years. To break that faith would surely put our gains at risk and fail to secure the promise of the future. And we must always be prepared for the crisis no one expected, the contingency that no one planned for.

So what does this all mean for the Armed Forces as we enter this last decade of a very turbulent century? We know that we will get smaller. We also believe that we can do so with no additional risk to the Nation. We can cut structure. We believe that our strategic forces must be modernized to continue to deter a modernized Soviet force. We must still defend forward in Europe and the Pacific; at lower levels perhaps, but we must still defend forward. We must maintain maritime superiority, and we must have reinforcing and mobility forces to back up our forward deployments.

Mr. Chairman, we must have a quality force. I was in the Army at the time it was characterized as "a hollow Army." I commanded battalions and brigades in the 1970's. I know what that force was like. I know what it was like to have only 30 percent of your officers and only 60 percent of your strength. We fixed that, Mr. Chairman. We fixed that in the decade of the 1980's. And as we go back down to a smaller force, let's not break it. Let's not demobilize. Let's restructure, let's reshape, let's do it in a sensible way. But let's do it in a way that when we're through with it, when we are smaller, we still have a great armed force, an armed force consisting of quality men and women who are proud of serving in their units, proud to be serving in the service of their nation. Don't push us off the cliff too early in 1991, or we will be rapidly back to the days of a hollow Army.

Thank you, Mr. Chairman.

Chairman SASSER. Thank you, General Powell.

[The prepared statement of General Powell follows:]

STATEMENT OF
GENERAL COLIN L. POWELL, USA
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
BEFORE THE
SENATE BUDGET COMMITTEE
ON
DRAMATIC CHANGE AND ENDURING REALITIES
5 FEBRUARY 1990

INTRODUCTION

Mr. Chairman and members of the Committee, thank you for the opportunity to testify on America's military posture in connection with your hearings on President Bush's defense budget.

The images of the past 13 months or so have so captured the world's attention that it is almost a platitude for me to conclude that these are the most exciting times in forty years. The Free World has persevered, held out its values for all to see, kept its strength throughout calm and tumult, and now the prospects for the future are enticing, exhilarating, and may constitute a fundamental turning point in human history.

In some ways, I compare our current situation to the immediate post-World War II period. We and our allies had settled the balance of power in the world in a manner made possible by our tremendous systemic strength. But the more complex and difficult challenge lay ahead of us--how to manage the transition to peace and the peace itself. Some people assumed that such a resounding victory as we had achieved would automatically produce peace. Today we know that no proposition could be further from reality: there is no automaticity to peace whatsoever. Peace comes--and stays--when free people are strong and ready.

Today's domestic climate is not too dissimilar from the climate created by our overwhelming World War II victory. Some people are poised to make decisions calling for the precipitous dismantlement of the very strength that brought the prospects for peace. We know that this year, and for the next few years, we will engage in a great struggle to determine whether we will repeat failures of the past and cause this dismantlement or, having learned our lessons, continue to maintain the needed strength to avoid putting America at risk.

Our eyes are open. Indeed, to remain blind to the change in the world would be an egregious and unpardonable mistake. The Secretary and I know the Department will get fewer funds, we know the armed forces will be decreased in number and that the Department will shrink. We know also that the risk of making these changes is acceptable, that the nation cannot afford to do otherwise. But we must not shatter the armed forces. We must not make them a shadow of strength. We must not devastate what we have invested so much of our treasure to build during the past decade.

Secretary Cheney and I began our efforts with an eye to history, current events, and with a view to the future. But not with a view to dissolving America's strength. I took my present job in the hope that I could help shape our armed forces for the future challenge, not to demobilize them precipitously and weaken our position in the world. The Soviets have not made the mistake of equating withdrawal and restructuring with disarming, and neither should we.

MILITARY STRATEGY AND POSTURE

Our military strategy is designed to safeguard and promote enduring national interests--and it is working dramatically well. Those interests are unchanged by the volcano of events in the world:

The survival of the United States as a free and independent nation;

The continuance of a healthy and growing economy that provides opportunity for individual prosperity and a resource base for our national endeavors; and

The maintenance of vigorous alliance relationships that bolster forward defense of the United States, secure our allies, and collectively maintain peace with freedom in the world.

Basic Objectives

Two of our national defense policy's basic objectives are:

To deter military attack against the United States, its allies, and other important countries; and to ensure the defeat of such an attack should deterrence fail; and

To increase U.S. influence around the world, to further an atmosphere conducive to democratic progress, and to protect free commerce and ensure U.S. access to world markets, associated critical resources, the oceans, and Space.

These objectives remind us that America cannot choose between military security and economic security. The two are inextricably intertwined. On a smaller but similar scale, the peaceful trade and economic prosperity of a city is dependent on the vigilant presence of the local policeman as much as it is on the ebb and flow of the vitals of commerce. No city mayor would consider abolishing his police force because were he to do so, the city's peace would soon dissolve and disappear.

Military Posture

Our global military posture is designed to keep the peace. The presence and readiness of our armed forces, here and overseas, prevents small crises from becoming big ones, deters major hostilities, reassures allies, and provides for dealing with unforeseeable contingencies wherever they may arise.

We try to keep these armed forces balanced. Balanced in terms of the strategy we call upon them to implement, the possible enemies they may have to contend with, the technology we can provide them, and the dollars available to raise, maintain, provide for, and sustain them.

We try to keep them balanced also in the sense of quality people, superb training, a high state of readiness and a pride in service to the nation.

And, with all of the foregoing in mind, we try to keep them balanced in terms of how they are divided between the active and reserve components.

In the world environment of the present and the foreseeable future, a durable consensus on the amount of dollars needed to support these efforts and these forces is essential to keep risks at an acceptable level.

THE DRAMATICALLY CHANGING WORLD SCENE

We are witnessing today the long-term success of policies we put in motion over forty years ago. Mid-term success produced a vibrant, cohesive, and dynamic Western Europe out of the utter devastation of world war. Among those nations at the forefront in that resurgent Europe was a democratic West Germany. Implacable foes became the closest of allies, marking one of the most extraordinary transformations in history.

Today, the long-term effects of that success are breathtaking to watch--from the collapse of the Berlin Wall to the potential for the ultimate democratization of Eastern Europe. The systemic crisis of our principal adversary, the Soviet Union, is the immediate catalyst for this historic and dramatic change but we and our steadfast allies provided the chemistry to which the catalyst was applied.

Though the spellbinding changes in Europe rivet our attention, there is much more on the horizon as well. In Asia, Japan was our archenemy in December 1941 and for almost four bitter years thereafter. Today Japan is an economic and democratic goliath and one of our closest allies. Again, our policies and our strategy following the devastation of World War II brought this transformation about. The bilateral security relationship between the U.S. and Japan has been a principal ingredient in the chemistry that produced the changes sweeping the globe today.

The march toward democracy and freedom seems inexorable. In Africa and Asia, in Europe and in Latin America, the principles our founding fathers brilliantly encapsulated in our two most famous documents, the Declaration of Independence and the Constitution with its Bill of Rights, seem to be on the lips of a remarkable majority of the world's peoples. Our founding fathers would find no mystery in this, merely the confirmation of their fondest hopes and their firmest beliefs.

Soviet Military Power in Transition

To give credit where credit is due, a Soviet leader of considerable vision and daring has set the stage for much of this sweeping change. President Gorbachev has embarked on a difficult course to renovate and repair the Soviet system. It is a formidable task and we wish him well. But we know a part of that system he wishes to renovate and repair is the Soviet military establishment.

President Gorbachev has no intention of demobilizing the Soviet military. The four tenets of President Gorbachev's plan for his military are withdrawal, reductions, and--we must not forget--restructuring and modernization. The end result will not be a demobilized military but a smaller and more modern force. These Soviet intentions present the United States with both opportunities and challenges--opportunities to reposture and restructure as a longstanding threat recedes, and challenges to sustain the nation's military strength in an emerging security environment of enormous complexity.

Throughout this promising but turbulent transition from an era of singleminded pursuit of containment, to an age of proliferating threats, I, as the Commander-in-Chief's principal military advisor, must stay focussed on the continuing reality of an enormous Soviet military capability. I cannot afford to be distracted by Soviet charm or sudden openness or the present disarray in the Soviet economy--even as I hope and plan for the prospects of a genuine, irrevocable reversal in Soviet foreign policy and all the advantages that such an outcome would bring to the world.

Equally important, I must devote increasing attention to the plain and simple fact that we as a superpower have grave responsibilities in the world, and to the realization that America offers the greatest hope to those peoples still oppressed.

And as I focus on these world realities and set about helping the Secretary of Defense to restructure the armed forces, I will not put America at risk. I never want to return to that leisurely, comfortable "From Here to Eternity" attitude of the 1930s that helped invite global conflict to an unsuspecting world.

NET ASSESSMENT

That being said, however, I cannot imagine a more challenging environment in which to set about the task of reshaping America's armed forces.

Nowhere is the challenge greater than in assessing the direction, scope, pace and momentum of the changes in Soviet military strength. On the one hand, I see convincing evidence that President Gorbachev intends to carry through his plans for unilateral cuts, for reducing the more threatening aspects of his forces and for achieving arms control breakthroughs. Conversely, it is also clear that he intends to take every opportunity to make virtue of necessity.

Thus, even as Soviet unilateral troop cuts in Eastern Europe proceed apace, much of the residual equipment is serving to modernize remaining units. While forces are being withdrawn into the Soviet Union--a process which may well accelerate in the months ahead--their long term status is unknown. And there can be no doubt that Soviet military planners will make the case for a sizeable reserve and a credible mobilization capability. Moreover, despite the promise of a START agreement in 1990, the Soviets' stable, long term strategic modernization programs have produced a daunting nuclear force posture--and will continue to do so.

These and other ambiguities make capability comparisons especially difficult. Nevertheless, as directed, the Secretary of Defense will provide Members of Congress a Joint Military Net Assessment (JMNA). It is in the final stages of approval. Here I want to emphasize several points from that assessment.

As I noted, the Soviets have for some time been shaping their strategic nuclear modernization program to be compliant with future START treaty constraints. We can expect continual upgrading of ICBMs, SSBNs, and bombers throughout the coming decade. Such upgrading will make these systems increasingly accurate and place our forces at increasing risk. Soviet forces will also be more survivable--making ours less effective. Today, the Soviets have already deployed a significant number of their planned rail-based SS-24s and their road-mobile SS-25s. As you well know, we have yet to field a mobile missile with comparable capability. By the mid to late 90s Soviet mobile systems could comprise one-half of their total ICBM force. To continue to provide a credible deterrent, we also need mobile missiles, and systems such as the B-2 that are capable of holding at risk these Soviet mobile missiles.

The Soviets have also constructed an impressive system of strategic communications facilities and both hardened and mobile command posts. In addition, they have continued to modernize their treaty compliant Moscow ABM system consisting of radars and two classes of missiles. These improvements coupled with their robust air defense systems mean we will have to modernize our systems so they can reach potential targets with the assurance we require.

On balance, Soviet space programs are geared more toward warfighting than ours. Their systems are expected to continue to improve, but at potentially reduced rates. To complement their existing on-orbit space systems, the Soviets have the capability to place additional systems on orbit quite rapidly. Moreover, they have a credible capability to conduct ASAT operations. As you know, we are only now taking steps to realize similar capabilities. To ensure our access to space and to deny a haven in space to any enemy in time of crisis, we need the ASAT program that is under development. Although our space programs are generally oriented toward peacetime activities, initiatives are underway to improve our capabilities across a broad range of conflict. Specific improvements are being applied in the general areas of launch and satellite system performance, reconstitution and survivability, as well as in ground-based surveillance for space control.

In assessing conventional forces in Europe, we noted that Non-Soviet Warsaw Pact nations currently furnish 40% of the forces in the Central Region and 50% of those in the Southern Region. Thus, considering the new political orientation of the Non-Soviet Warsaw Pact nations, our judgments clearly accept a related reduction in Pact capabilities as well as a dramatic diminution in the likelihood of East-West hostilities. But, while taking into account current political upheaval, as well as Soviet unilateral reductions, we noted that considerable conventional force asymmetries remain and will for some time to come. During this process of restructuring, the Soviets have been using some of the equipment they have removed to make other units more capable and, although they have reduced tank production this year by about half, they continue to outproduce us. Production of new and more capable aircraft and ships continues at a vigorous pace. Equally important, the Soviets are producing equipment whose sophistication rivals our own.

As you know, our estimates of warning time in Europe are changing for the better and we expect further improvement as unilateral reductions are completed and as the non-Soviet members of the Warsaw Pact continue to go their separate ways. We also look toward CFE negotiations to codify reductions, withdrawals, and verification measures and, therefore, virtually assure a wholesale change in the entire European security picture. We are now engaged in a reassessment of warning time, planning factors, and other important variables, but significant unknowns exist. The salient question, in my view, is when will it be prudent to translate hopes, assumptions, and what appears to be an increasingly defensive military orientation, into solid planning factors. When that time arrives, I anticipate we will be able to make historic--and perhaps permanent--changes to the defense posture that has brought historic change to Europe.

In the Pacific, it is unlikely that the Soviets would initiate hostilities which threaten our interests. Much of Soviet attention will remain focused on their bilateral concerns with China. As a part of their general force reductions, the Soviets have begun to draw down land and air forces in Mongolia, throughout the Eastern TVD, and at Cam Ranh Bay. Additionally, the readiness of the Soviet Pacific Fleet will decline somewhat as older ships are retired. Similarly, their fleet out-of-area deployments will continue to decline. This said however, their naval capabilities will continue to pose a potential threat to U.S. security interests in the region.

On the Korean Peninsula, although there have been signs of a desire to talk, the dialogue thus far between Seoul and Pyongyang has done nothing to convince us that the North Koreans want to change the confrontational relationship. They continue to maintain formidable armed forces, but our assessment is that the U.S.-Republic of Korea security relationship will continue to deter aggression on the peninsula.

In other theaters we can continue to meet our requirements. I believe the recent operations in Panama ably demonstrate our capability to respond rapidly to crisis. But I am not overly optimistic about Third World developments in general. Debt, poverty, fragile democracies and internecine struggles will continue to generate both turmoil and tragedy and thus challenges to U.S. interests. In particular, drug-trafficking, insurgency and terrorism will command ever increasing attention and resources. And the chilling facts are that in today's world, the proliferation of sophisticated weapons adds a new and unknown dimension to what were already vexing security problems.

The uncertainties imbedded in these and other assessments lead me to three fundamental conclusions. First, the Soviet Union will remain a military superpower. As such, Soviet armed forces will possess vast potential regardless of the increasingly benign stated intent of the Kremlin. And that potential will remain should intentions change.

Second, and relatedly, until the profound transformation in the Soviet system is firmly rooted in democratic institutions--and it most assuredly is not at present--we would court inordinately high risks if we made irrevocable changes to the foundation of our military strength. It is still too soon to make sweeping changes to strategy, force structure and posture, and modernization. There is simply too much risk in such precipitous change. Eastern Europe--and even the Soviet Union itself--may be changing at an incredible rate, but that is certainly no reason for NATO to do so. Instead, it is sound reason to move but to avoid haste. The Soviets are in the throes of a second revolution. Because of this, we are engaged in a hopeful but as yet uncertain transition to new international security relationships.

Third, other threats to American interests do not disappear because of a retrenched Soviet Union. The problems we are likely to confront in the rest of the world in the 1990s keep me from any inclination to pronounce the end of history.

In this period of remarkable world change and its attendant instability, it is important that we and our allies continue to provide an overarching framework of stability. Thus, the fundamentals of our national military strategy remain sound. We must continue to provide a credible strategic deterrent through a modern TRIAD, protect our interests globally, retain a highly mobile and ready force for crises and contingencies, and through all of the coming restructuring avoid foreclosing options for hedging against a new or renewed threat.

THE ARCHITECTURE OF THE ARMED FORCES

With this backdrop, let me tell you about some of the issues we grappled with as we began the process of reshaping the armed forces of the United States:

The Inescapable Reality of Nuclear Weapons

No matter how much the most optimistic dreamer amongst us may wish it, we cannot disinvent nuclear weapons. We can try to defend against them--in the not too distant future, perhaps decisively so--and that is why we must keep pushing our Strategic Defense Initiative. As other wise Americans have said, it is inconceivable that any sane person would want to opt for mass destruction over meaningful defense as the most desirable strategic deterrent.

Since we cannot disinvent nuclear weapons, nor for the time being offer an effective defense, it is axiomatic that we must keep our strategic deterrent modernized and ready. The only way the Soviets can destroy us in thirty minutes is with their strategic nuclear weapons. We must deter the use of those weapons. We must have a triad of air, land, and sea-based nuclear weapons that represents state-of-the-art capability so that no Soviet leader would ever contemplate using his nuclear arsenal against us.

Conventional Forces For Forward Defense

In areas critical to our interests we must be able to conduct and support forward defense. In Europe, in Japan, on the Korean Peninsula, in the Philippines, in Southwest Asia, and in Latin America U.S. forces constitute the primary deterrent to conflict in the region. Our forward-deployed forces also constitute the leading edge of the capability to execute our military strategy should deterrence fail. Moreover, our forward-based troop and aircraft deployments and continuous naval presence in key areas demonstrate to our allies, our friends, and our adversaries that our commitment in the region is rock solid.

Our capability to reinforce these forward-deployed forces is also fundamental to deterrence and, should it fail, to warfighting. We can adjust the timetables for reinforcement based on a careful assessment of the various threats, but we must not dismantle the procedures, the mechanisms, nor the forces that reinforcement requires.

Conventional Forces for Crises and Contingencies

In the first ten weeks in my job as Chairman, I received ample proof of the need for conventional forces. I helped the President and the Secretary with crises in Panama, on the border of Nicaragua and Honduras, in El Salvador, and in the Philippines. I am well aware of the leverage that military forces provide in such circumstances. Perhaps more so, I can sense the nakedness our national leaders would feel were they to lack such an instrument. We do not want to be in the situation where we watch a crisis erupt and grow and our only reaction is, finally, mobilization for the war that the crisis eventually produces.

The war plans maintained by our warfighting CINCs around the globe are not simply aimed at the Soviets. Certain plans are aimed at a particular threat to U.S. interests that might foreseeably develop in specific areas of the world. Each such plan has a complement of military forces that is intrinsic to it's successful execution. In our recent operations in Panama, the Members of Congress, our friends and our potential adversaries witnessed a dramatic example of the capability of our conventional forces to execute our plans. In this case, it became increasingly clear that to protect the interests of both the United States and Panama, we needed to act. We deployed significant conventional forces and successfully carried out the contingency operation and, at the same time, prevented a potentially larger crisis. In short, we protected American lives and restored to power the duly elected leaders of Panama.

Conventional Forces for the Drug War and for Anti-Terrorism

As you are all aware, I believe the American people want the armed forces to participate in the war on illegal drugs. I believed this when I was the Commander in Chief of Forces Command and I continue to believe it now. Impacting the flow of drugs into the U.S. is not a mission we will accomplish to the satisfaction of the American people in a brief period of time. We are in this one for the long haul. Acting always in accordance with the laws and traditions of our nation, we *can* make a significant contribution and we are planning to do so.

As for terrorism, we all hope that scourge goes away or at least diminishes. But we all know that for the time being it probably will continue to haunt us. While military force is only infrequently the right answer to terrorism, under certain circumstances it can be. We do not want to lose the option to exercise it should those circumstances arise.

Strategic Mobility

I cannot speak of conventional forces in crisis management, contingencies, or counterterrorist actions without stating the requirement for the strategic means to get those forces to the scene of battle. We must have the aircraft and the ships to get our forces to the action. The less our forces are forward-deployed, the more efficient and effective these ships and aircraft must be.

Space

The importance of Space to our modern armed forces is growing daily. At present, we would be hard-pressed to retain the precision and timeliness of our ability to react to crisis or to control contingency operations, without our Space assets. We would be equally hard-pressed to accomplish necessary surveillance and verify arms control treaties and agreements without our Space assets. Space is not yet indispensable to all our military operations, but it is rapidly growing in importance.

A GLOBAL PERSPECTIVE WITH REGIONAL REALITIES

As I told General Moiseyev and my Eastern and Western European counterparts in Vienna several weeks ago, the United States has *global responsibilities*. We cannot afford to become myopic nor to focus on a single portion of the globe. We are a superpower and the leader of the Free World. With that position go certain realities.

Europe

Europe remains our first order of business. Despite the sweeping change there, certain realities endure. While we will reduce the number of our forces in Europe, there is nothing whatsoever on the horizon that indicates to me that we can disengage from the continent entirely.

NATO will remain an important alliance well into the future. No one in Europe views the U.S. presence there or the NATO Alliance as an anachronism. They view both our presence and the Alliance as the needed ingredients for stability and for the fulfillment of their and our political vision of a Europe whole and free. Because it is an alliance of nations with common values and aspirations, its foundation is far firmer than its military dimensions might suggest. At the same time, however, our armed forces in Europe are our commitment to stay. Our armed forces signal to the Europeans that we are in the contest for the long haul, that our endurance is sufficient to ensure a genuine peace. In short, our armed forces tell the nations of Western Europe that we are sincere when we say we are defending the United States *and* the Europeans by being in Europe. Successful alliances are built on shared hopes and values. They are sustained by these things too but not without military power. It is helpful to remember that a central tenet of the NATO Alliance has always been: strength without dialogue is politically untenable, but dialogue without strength is morally--and literally--indefensible.

Our destiny, now and in the future, is wrapped up in the destiny of Europe. Essentially, that has been true since the first colonist set foot on this continent almost four centuries ago. That is an enduring reality.

East Asia and the Pacific

For what is essentially an economy of force operation in the Pacific and Asia, the United States has purchased peace, prosperity, stability, and democratic progress in the region for the past 15 years. For a pair of forward-deployed Army divisions, a single numbered fleet, the equivalent of four tactical fighter wings, some Marine air-ground task forces, and a carefully constructed security assistance program, we have done all this. Japan has become the economic engine of the Pacific and much of the world. South Korea has a phenomenal economic growth rate. Thailand is prospering and with the Vietnamese out of Cambodia, will likely move ahead with amazing speed. The Philippines, with fits and starts, is still practicing democracy. The failures in the area are few and on the other side: North Korea and Vietnam. And even they show signs of waking up, signs that they are listening to--as a minimum--the call of open markets.

We cannot afford to disengage in a major way from this region of the world. We have won too much. Our friends and our allies do not want to see us disengage. They know that politics and nature abhor a vacuum and that into the power vacuum created by major U.S. disengagement from the region would flow only God knows what. They trust the United States in matters of gravest importance and they do not want us to abandon the region.

We have fought our last two major wars in the Pacific, and we had a crisis there--in the Philippines--about two months ago. To disengage in a major way, to remove all our Army, our Air Force, our Navy, and our

Marines and go home, would see us coming back in the future under far less desirable circumstances; or, worse, losing the inclination to return and with that loss, forfeiting our access to the economic might supporting our superpower status. These are the enduring realities of the Asia and Pacific region.

The Middle East and Southwest Asia

We still patrol the Persian Gulf. We still provide military forces to the multi-national peacekeeping force in the Middle East. We still have security relationships with nations in the region. We still get a large amount of oil that passes through the Strait of Hormuz, and so do our allies. Iran and Iraq, without a peace treaty, still stand and eye each other warily. They are armed to the teeth. Iraq alone has over 1,000 tanks and battle-hardened tankers to man them. These are all enduring realities in this region.

We have made our work easier in this critical part of the world. Operation Earnest Will, our escort of U.S.-flagged tankers in the Persian Gulf, and the associated military operations, helped create more confidence in the United States. The Gulf Cooperation Council states now have increased faith in America and have responded accordingly.

Moreover, new realities may be in the making. A more cooperative Soviet Union, a more tractable PLO, a war-weary region, a Syria without strident Soviet support, and so on, may bring about change. But for the moment and for the near future, these are realities we hope for. Meantime, the old realities endure. Indeed, they are perhaps the oldest realities with the greatest endurance of any in the world. We simply cannot afford to ignore them. We do so at extreme peril to our own livelihood, that of our allies, and certainly that of the state of Israel.

Latin America

In our own hemisphere, I have had the most pressing crises of my first four months on the job. The conflict in El Salvador is to the Salvadorans a full-scale war and demands our daily attention. A freely elected, democratic government is threatened by communist insurgents supported by other governments. On the borders with Nicaragua, there is constant tension as Honduras and Costa Rica watch the largest Army in this hemisphere outside the U.S. go through its daily routines. And the democratically-elected government in El Salvador looks across the Gulf of Fonseca and sees this same Nicaragua sending arms to the insurgents in El

Salvador. And in Panama, at the close of 1989 we found it necessary to translate our previous longstanding diplomatic and economic efforts into military force, or risk more American lives and a deteriorating situation in an area of great interest to the nation. We chose to use force and, as a result, we have put our diplomacy and our economic efforts back on track and given Panamanians solid hope for a future of freedom and democracy in their nation.

In summary, Latin America will continue to demand our attention. The rapid procession toward freedom and democracy and civilian governments is still resisted by forces whose chief motivation in the world, communism, is dying fast. Adding to this resistance are the realities of a huge debt, a somewhat dismal economic environment, and the omnipresent greed of narco-traffickers. We cannot afford to allow this regional procession toward democracy, every bit as marvelous as the one in Eastern Europe, to succumb to these pressures.

A VIEW TO THE FUTURE

In 1985, Mr. Chairman, you and your colleagues in both houses began to tell the Department of Defense that we were going to spend less on the military. This was before Mr. Gorbachev's charm and enlightened self-interest took the world by storm, and before any announcement of substantial Soviet reductions in their military forces. Since that time we have had no real growth or a real decline in every annual budget. Because of other pressing domestic demands on our national resources, that was a reasonable approach to doing business.

Now that we do have a certain reduction in the Soviet military threat, albeit a fairly small one in terms of capabilities, it is reasonable to continue that approach. It is not reasonable nor wise, nor very safe for this nation, to draw down our armed forces precipitously and I am opposed to any such extreme approach.

When people ask me if we have a strategy for the future I tell them that we most assuredly do. It is a strategy based on the enduring realities I have described to you, on the continuing quite capable military potential of the Soviet Union, on the changed pubiic consensus on defense spending, and on the determination that America shall not cease to be a superpower. It is a strategy that has about it nothing of the Soviets' desperation. They have created a one-dimensional superpower, a Third World nation with a First World military force. They are re-examining their alliances, sending mixed signals to their client states around the world--who are losing too--

and they are retrenching in key areas so they can eventually achieve multi-dimensional superpower status. We, on the other hand, are seeing our post-war strategy vindicated. Our strategy must evolve to accommodate both our victory and the Soviet desire to change, no matter how that desire turns out in reality. Our strategy must not abandon the victory nor compromise its completeness.

What emerges from this evolutionary approach to changes in our defense posture is a reshaped but balanced military that can do the things that have to be done to keep America from unacceptable risk. What emerges from my analysis of the military forces needed to implement the first stage of this evolutionary approach is the President's FY 1991 budget.

THE DEFENSE BUDGET FOR FY 1991

The President's Budget for the Department of Defense in Fiscal Year 1991 recognizes the dramatic changes in the world and projects a prudent, corresponding and long-term reduction in the U.S. military. The Budget projects real declines in spending, at roughly two percent per year, in 1991 and the years which follow. The 1991 Budget will bring the total real decline since 1985 to 16 percent. As you know, because of this decline we have already removed some force structure, brought a halt to improvements in readiness and sustainability, and deeply reduced modernization programs.

Secretary Cheney and Deputy Secretary Atwood have made real progress in identifying management changes and efficiencies which will help offset funding reductions and help us buy defense capabilities more economically. Even so, as Department funding continues to decline, each year will bring some substantial cuts in our military capabilities--smaller force structure, base and facilities closures, and elimination of acquisition programs. I have worked closely with the Secretary to pinpoint where these cuts should be made in the 1991 Budget adjustment. We are still working on where the additional cuts should be made in our overall FY 1992-1997 program.

As the Secretary and I worked these matters, we determined that our foremost priority is that we preserve the *force quality* that we have so carefully nurtured during the last decade. This quality has two vital elements: trained, ready and proud people balanced with modern, effective weapons systems. Thus, in the FY 1991 Budget we have eliminated the lower priority acquisition programs and portions of the force structure to preserve the high quality of what remains. In the world we face today--

and that we calculate we will face next year--we are satisfied our efforts will provide the nation a military establishment capable of accomplishing national security objectives.

The 1991 submission reduces active duty manpower by over 91,000 from 1989 levels. We will make these reductions through reduced recruitment, voluntary early separations, and other actions short of involuntary reductions in force (RIF). To maintain high quality and morale, it is crucial we reduce strength gradually--without a RIF and with sufficient new enlistments to sustain the numbers of high quality people for skilled occupations. We cannot sustain long-term, volunteer manpower at high quality levels if we slash manpower precipitously.

Acquisition of quality weapons systems, in the face of declining resources, requires hard choices. We cannot take the seemingly easy path of cancelling our next generation of high technology systems. The Soviets are clearly protecting their own such systems in their restructuring, and the increasingly sophisticated weapons in the arsenals of some potentially unfriendly non-communist countries cannot be ignored in our planning. We looked at the capability and size of the military forces we will need in the long-term and sought to provide the highest priority to the development and procurement programs which support that outlook. We simply cannot afford the luxuries of buying current-generation systems that exceed the needs of our projected smaller force, or of continuing to develop systems whose eventual production will clearly not be affordable.

Our decisions in force structure reductions must demonstrate equal clarity of vision. As the size of our armed forces decreases, we must ensure that we identify and protect those forces which give us the flexibility to respond to a wide and increasingly unpredictable variety of threats. In the FY-91 Budget, therefore, we reduce active heavy ground forces while continuing to provide remaining forces with the funds to maintain the high levels of readiness needed to execute short-notice actions such as recently in Panama, in the Philippines, and not too long ago, in the Persian Gulf.

We also need to maintain the alliance cohesion which has helped bring about the dramatic changes in the Warsaw Pact. We must time our force reductions and withdrawals so that the overseas portions follow negotiations rather than anticipating them. Accordingly, we are starting the long-term reductions in 1991 with U.S.-based divisions and aircraft units. Reductions in overseas units are expected to follow, and we are reducing our investments in overseas construction pending identification of these units.

The Secretary and I feel strongly about the continued modernization of our strategic nuclear forces. Soviet nuclear forces are the only palpable threat to the very existence of our nation. While the Soviets appear to be reshaping their forces to conform to a future START agreement, they are continuing a robust modernization effort. We must maintain the credibility of our nuclear deterrent. A vital part of the FY 1991 Budget is the carefully-phased and START-compliant modernization of each leg of our nuclear TRIAD.

CONCLUSIONS

I have spoken in complete candor in this written statement--as I promised I would in my confirmation hearing. At the outset, I spoke of the similarities between our present world and the immediate aftermath of World War II. There is another similarity I want to mention, a very encouraging similarity.

The American people are very astute at assimilating the lessons of history. After World War I, they rejected the idea of collective security and lived to regret that rejection as they fought valiantly in World War II. Following that war, they accepted the reality that some form of collective security was absolutely essential to world order, peace, and their own prosperity. They also accepted the systemic strength of the Free World as the underlying principle of that collective security. In the North Atlantic Treaty Organization and the other alliances forged in those post-war years, Americans put strong steel into their new beliefs. I believe that lesson is still alive in most Americans. I believe they still want a strong Free World, a strong America and a credible defense, they simply want it at a reasonable cost. We can give them that reasonable cost--and we can avoid putting them at risk too. The way to accomplish that twofold task is an evolutionary approach to reshaping our armed forces.

Thank you for the opportunity to provide these words for the record.

Secretary CHENEY. If I may, Mr. Chairman, a quick overview of what we did with respect to the budget of 1991.

Chairman SASSER. Are these the charts that were in your statement, Mr. Secretary?

Secretary CHENEY. Yes, most of them should be included in the statement.

The ordinary budget process, I would remind the committee, has now moved to a 2-year cycle for defense. We're trying to do a 2-year budget at the direction of the Congress. Ordinarily, what would happen would be that last year, 1989, we would have submitted the 1990–91 authorization, and we would be here this January with minor modifications in the 1991 budget.

Last year, for example, when we signed off on the conference agreement in November, it included 2-year funding of the B–2, for 1990 and 1991. In other words, the increase that you mentioned earlier in your comments, Mr. Chairman, was decided on in November in the conference agreement between the administration and the Congress.

What we've done this year, though, because of the extraordinary developments that occurred in the world, was to accelerate the process of developing the next plan. Having submitted 1990 and 1991, ordinarily we would now be doing what's called the 1992–97 POM, Program Objective Memorandum. That's the planning process for the budget that will come to the President next November and be submitted to the Congress a year from now. That's a 6-year plan. We're making the transition to a 6-year plan from a 5-year plan because we've gone to 2-year budgets. So that will incorporate three 2-year budgets.

That's the place in which you do basic fundamental long-term changes. You evaluate your overall programs. You look at the big issues and the big questions relating to defense strategy and force structure and your major procurements. Because of developments in Europe and because of my own conviction that I wanted to submit a realistic budget to the Congress this year, last fall I called together the Service Secretaries and the Chiefs and discussed the proposition with them. And we were unanimous in wanting to submit a budget that came up, not with real growth in the out-years—knowing we were never going to get real growth in the out-years—but, for the first time in about 15 years, forecast a real decline in spending in the out-years. We marked to that and began to shape our force in light of what I think is that more realistic assumption about funding levels and, in a way, that reflects the changing strategic requirements in the world. That is, in fact, what we have done.

Now, we have tried to accelerate that 1992–97 planning process so that we can embody some of those changes in the 1991 budget, and the 1991 budget will show that.

What this first chart shows you, of course, is just the top line going out over the course of the next 5 years. In effect, instead of the plus one, plus one, plus two, plus 2 percent real growth line that I inherited when I became Secretary last year, we're looking at minus 2.6 percent in real terms, 1991 over 1990, and then minus 2 percent per year thereafter throughout the next 5 years.

CHART # 1

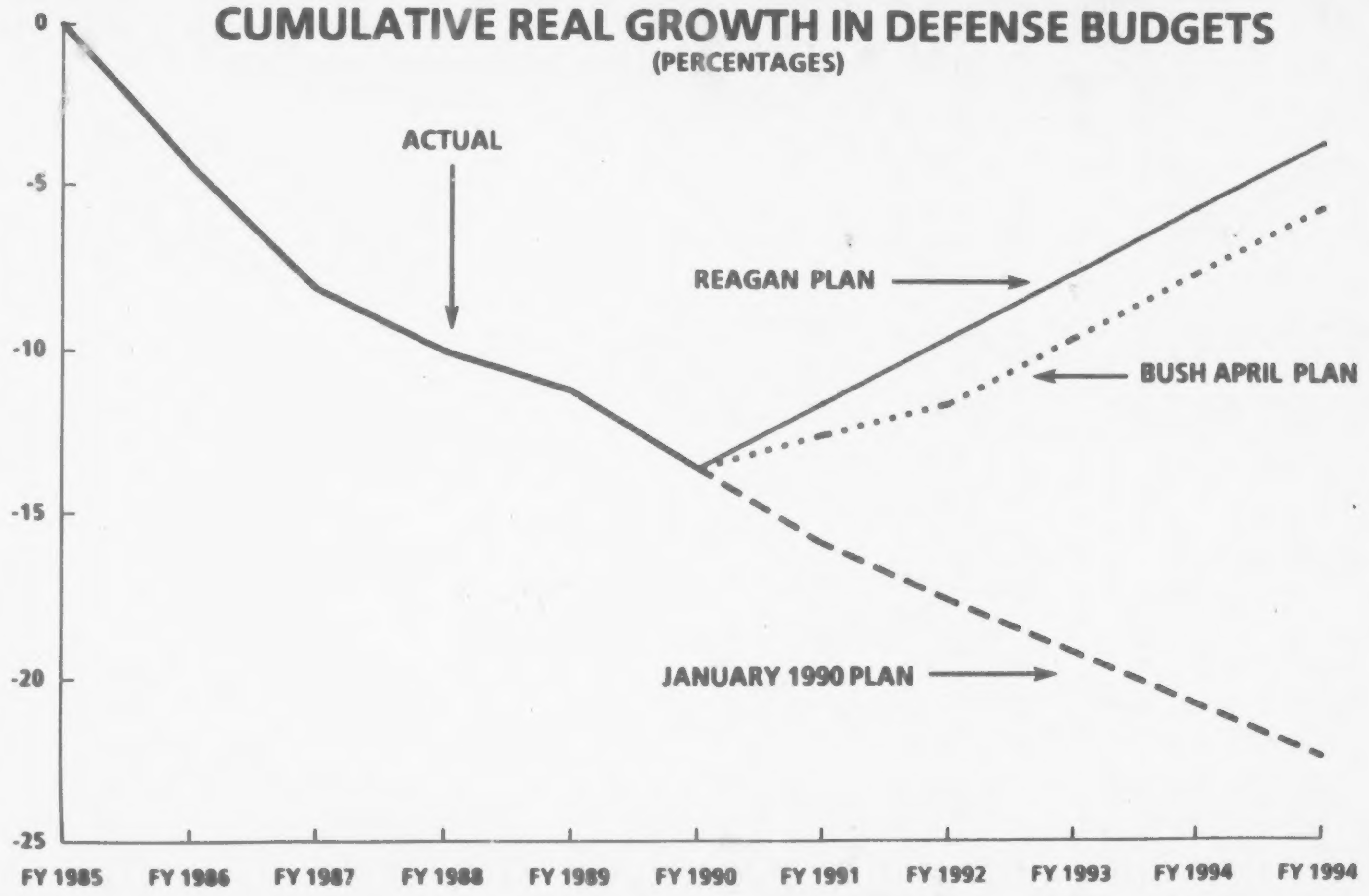
FY 1991 DoD BUDGET
BUDGET AUTHORITY
($ in Billions)

	1990	1991	1992	1993	1994	Cum 90-94
April 1989 Plan * (0,1,1,2,2% Real Growth)	295.6	317.5	332.4	351.0	369.4	1,665.9
Reduction	-4.2	-22.4	-32.4	-46.6	-61.4	-167.0
January 1990 Plan (-2% Real Growth)	291.4	295.1	300.0	304.4	308.0	1,498.9

* Adjusted for final economic assumptions

The overall plan I think is best captured on this chart. If you look up here to the left, of course, it starts with 1985, runs out to 1995. The green line is what has actually happened. Since 1985, the administration has proposed real increases in defense spending, and have never gotten it. We always ended up with real declines. That's the green line you see there.

The Reagan plan submitted a year ago is the orange line. The blue line is the plan that President Bush instructed me to implement last spring. And the red line that we've got down here to the lower right, that's what we are marking to now for the course of the next 6 years—next 5 years, between now and 1995. That gap, between the Reagan plan on top and the red line down there, which is the Bush 1990 plan, that wedge in there represents approximately $230 billion, which is the task that I've been engaged in since I became Secretary in terms of cutting out of the 5-year program.



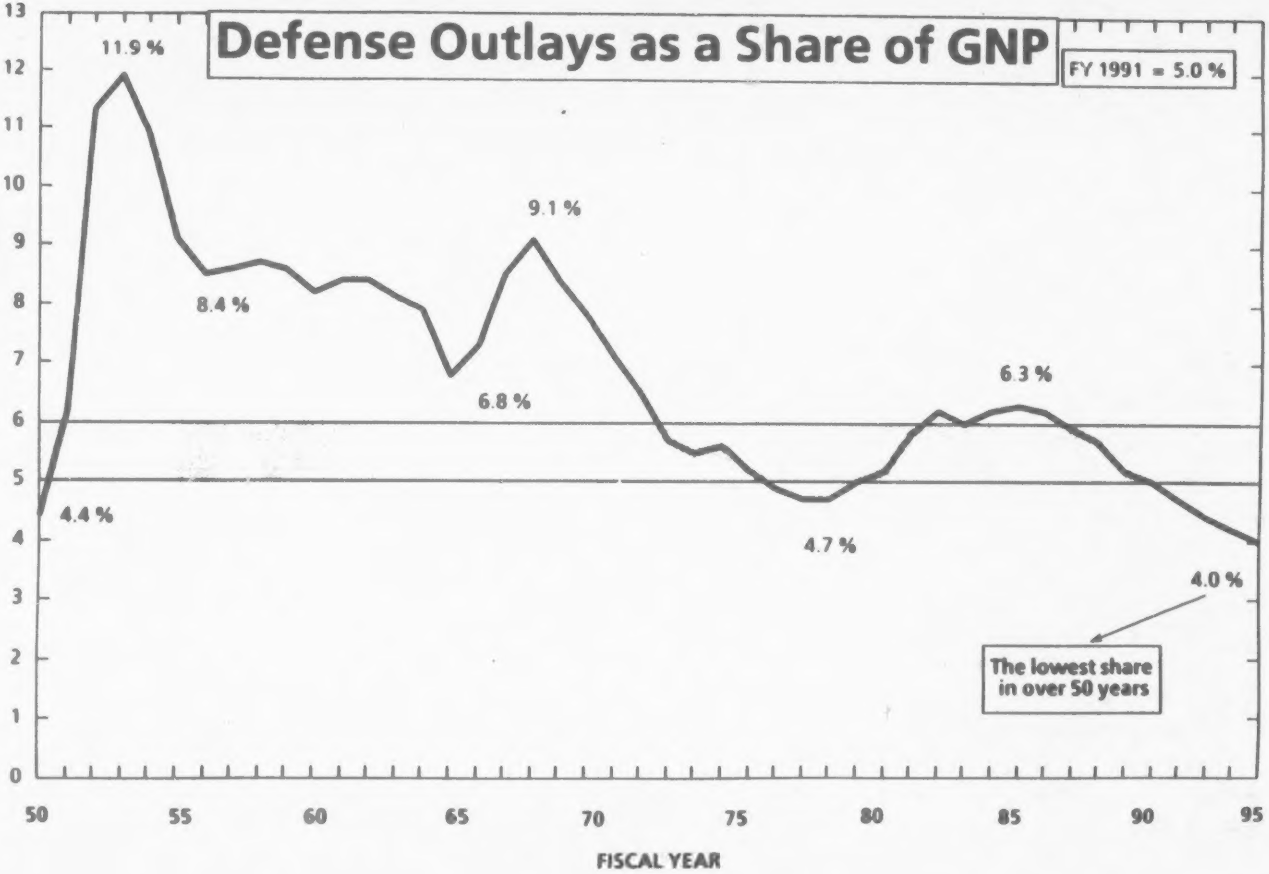
CUMULATIVE REAL GROWTH IN DEFENSE BUDGETS
(PERCENTAGES)

This is an interesting chart because it shows defense spending as a percentage of gross national product. The blue border across the middle is the range of 5 percent on the bottom, 6 percent on the top. Go back to 1950, of course, and you see the big peak up to 11.9 percent of GNP. That's what we spent during the Korean war. In Vietnam, we had a peak of 9.1 percent in the Nixon years, end of the Johnson administration. The 6.3 percent of GNP was the peak during buildup in the first part of the 1980's. This year, the budget we've submitted for 1991, we're down to 5 percent of GNP. If we continue out for the next 5 years on that minus 2 percent growth line that I charted, we get down to 4 percent of GNP being spent on defense by 1995.

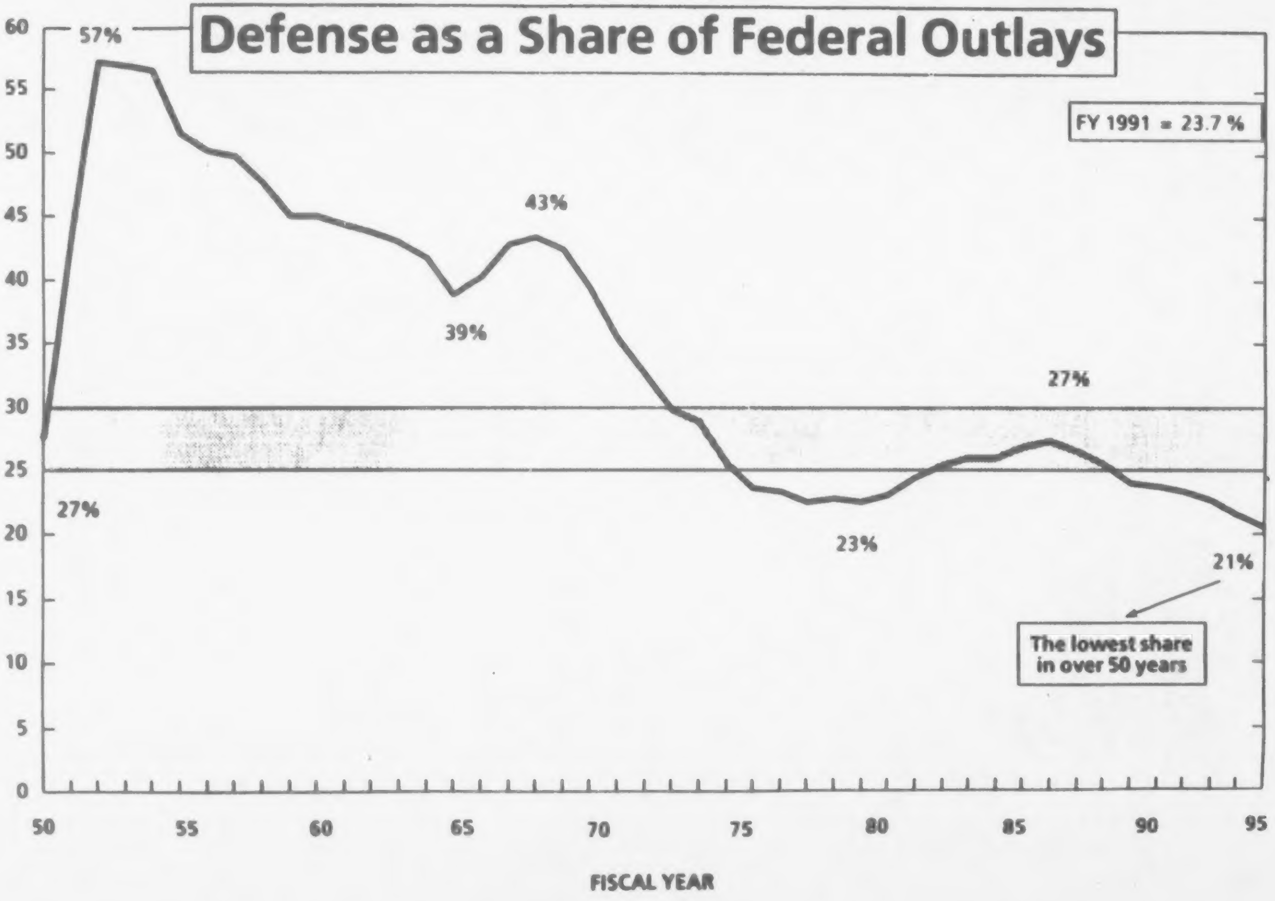
Chairman **Sasser**. Did you calculate how much money 4 percent of GNP would be in 1995?

Secretary **Cheney**. We're using the basic economic forecast that the administration submitted, and if you go back to the first chart, it's about $325 billion, roughly, that would be 4 percent of GNP in 1995.

The point here, Mr. Chairman, is that that 4 percent is lower as a percentage of GNP, the lowest level of defense spending since before Pearl Harbor. You've got to go back to pre-World War II days. The lowest point in the postwar period was 1948 when we hit 4.1 percent of GNP being spent on defense.


Defense Outlays as a Share of GNP
FY 1991 = 5.0 %
11.9 %
8.4 %
4.4 %
9.1 %
6.8 %
6.3 %
4.7 %
4.0 %
The lowest share in over 50 years
13
12
11
10
9
8
7
6
5
4
3
2
1
0
50
55
60
65
70
75
80
85
90
95
FISCAL YEAR

Another way to look at it, of course, is to consider defense spending as a percentage of the Federal budget. Again, the peak back in the Korean war days, 57 percent of all Federal spending went for defense. In Vietnam, 43 percent was the peak. During the Reagan years, we had 27 percent. This year we're down to 23.7 in the budget that we're submitting, and by 1995 we'll be down to 21 percent of the Federal budget going for defense. That's the lowest level of spending on defense as a percentage of the Federal budget since before Pearl Harbor.


Defense as a Share of Federal Outlays
FY 1991 = 23.7 %
57%
43%
39%
27%
27%
23%
21%
The lowest share in over 50 years
60
55
50
45
40
35
30
25
20
15
10
5
0
50
55
60
65
70
75
80
85
90
95
FISCAL YEAR

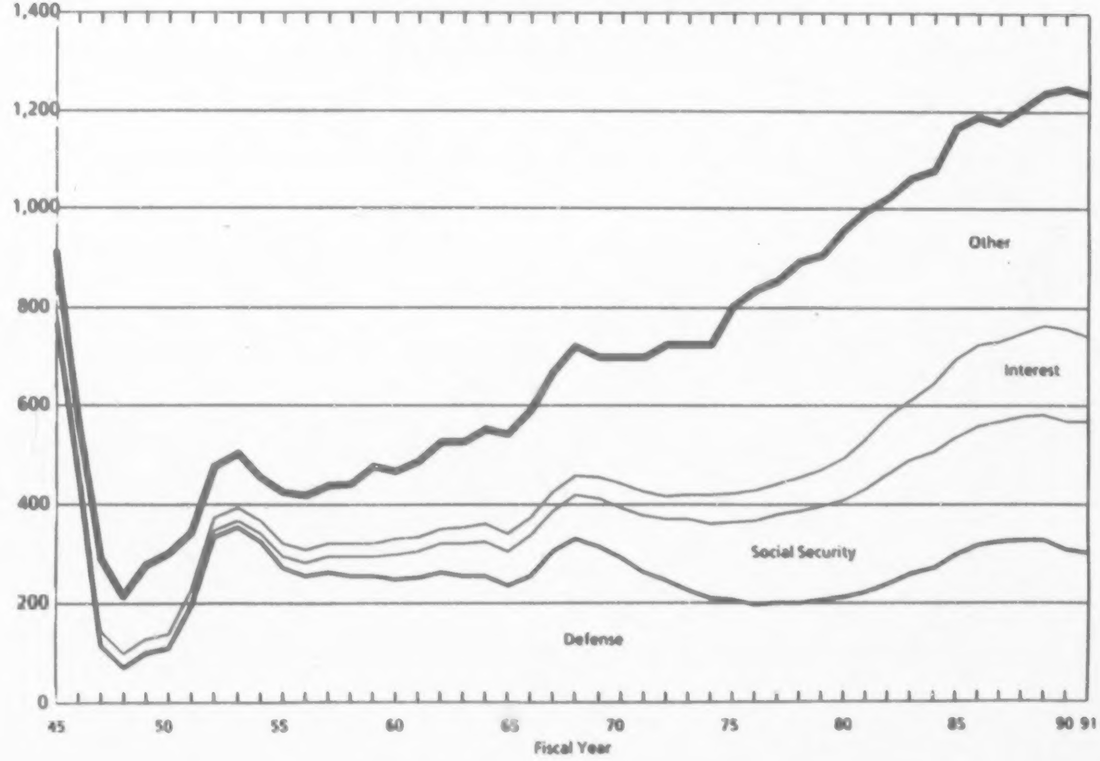
Still another way, Mr. Chairman, members of the committee, is to look at defense spending relative to the other items that are in the budget. Of course, the blue at the bottom is defense spending, again with the peak back during the Korean war days. You can see that while total Federal spending has been growing steadily throughout that period, the defense spending is increasingly a smaller part of the budget.

I recognize you've all got big problems on the Budget Committee trying to fit together all the requirements of the various Federal agencies. But to the extent that we're part of the problem, Mr. Chairman, we're a lot less of the problem than we were just a few years ago.

The yellow, green, and orange colors on top, of course, represent now 75 percent of Federal spending, and it's nondefense.

Total Federal Outlays

(Billions of FY 91 Dollars)



As we put together the budget this year there were a number of items that we wanted to emphasize in terms of priorities—I won't dwell on these. I think they are self-explanatory. The first, of course, personnel/quality of life. The longer I serve in this job, the more convinced I am, Mr. Chairman, that the single most important asset we have is the men and women who wear the Nation's uniform. If you had the opportunity, as I did, to go down and spend Christmas Eve and then Christmas Day with the troops in Panama and talk to the fine soldiers who were involved in that operation, you came away just enormously impressed with their professionalism, their training, their dedication, their patriotism. That is a very fragile commodity. Every single one of them is a volunteer. There isn't anybody serving in the military today who didn't ask to be there.

When we've gone through earlier build-downs or reductions, if you will, after World War II, Korea, and Vietnam, we were coming off a wartime base, very large military force, and a large standing draftee army. It was relatively easy to rapidly reduce your force simply by not drafting or by letting people go home who wanted to go home anyway. That's not the situation here. When we do build-down now and reduce force structure, as we recommend, it's very, very important that we treat those people with the respect and dignity they've earned, and that we preserve, for example, our commissioned and noncommissioned officers corps, and that people who signed up with the military for 4 years or 8 years or 12 years and are expecting to go to 20 years have the opportunity to do that, and that we minimize the disruption to the maximum extent possible.

Now, the build-down we're proposing is going to put a real strain on the system anyway. The fact is, if you do precipitous reductions beyond the kind that we're recommending, one of the first things you'll sacrifice is personnel and the quality of life, because the men and women out there in uniform today will rapidly conclude that the country doesn't care enough anymore to make the kind of commitment to them that's required if we're going to protect that asset. And that is, indeed, our most valuable asset, more important than any weapons system we'll ever buy.

With respect to readiness, readiness is oftentimes debated in many different forums. A lot of people have suggested that because warning time is greater in Europe now, that we'd have more warning before a major Soviet attack, we can afford to let readiness drop. I would argue that's not the case. Many items that are encompassed within the readiness category go directly to the quality of the force that General Powell talked about. Captured in there is the amount of training that's available for the troops, the number of flying hours for our pilots. If we go to the kind of force we have today and that we want to maintain, we have to train people to perform those missions, and then we have to give them the opportunity to practice their trade. That all figures into readiness. Nobody wants to be part of a half-baked operation. A military force that isn't ready is a half-baked operation.

Strategic modernization I think we've covered. The fact of the matter is, if we look at changes in the strategic environment around the world, the one place where we see no change in the Soviet posture, except to continue to improve their own forces, is in the strategic area. For that reason, we believe that our own strategic modernization programs that have been in the works for some time need to continue.

Maritime superiority I think is self-explanatory. For efficient production rates, we haven't been successful in every single instance in applying this principle. But as a general proposition, I've tried to avoid a situation in which we simply stretch out programs as a way of saving money. Instead of saying, well, we're going to have a lower level of funding, we're therefore going to run all of our production rates at lower levels, what we've done instead is make decisions to cancel programs, terminate production lines, and cut force structure rather than operate everything at an inefficient rate.

Finally, maintaining the technology base goes back to the point that I mentioned earlier. Any realistic assumption about the future, it seems to me, has to incorporate the facts that not only are the Soviets likely to find it easier to get access to Western technology in the future than they have in the past, but also we see the spread of sophisticated military technology to other nations around the world. Increasingly, for example when you look at the military situation in the Middle East, you have to take into account the proliferation of ballistic missile technology in that part of the world, as well as the likely proliferation of access to weapons of mass destruction.

DEFENSE CUTS SINCE JANUARY 1989

- The FY 1990-FY 1994 Plan was reduced by $64.2 billion in the April 1989 Budget Revision.
- The FY 1990-FY 1994 Plan was reduced by an additional $167.0 billion in January 1990.
- The Defense Management Report contains reductions of $ 39 billion.
- Reductions to the FY 1991 Program amount to $ 22.4 billion since the Budget Agreement in April, including:
    - Program Terminations,
    - Base Closures,
    - Force Structure Cuts,
    - Deferrals,
    - Civilian Hiring Freeze, and
    - Military Construction Freeze.

Since I became Secretary about 11 months ago, these are the kinds of items we've worked on with respect to trying to reduce the defense budget and get control of spending. The plan we submitted last year, last spring, was a $65 billion reduction. Added to that, to take us down to the minus 2 percent line that I've showed on the earlier chart, we've got to take another $167 billion out; $39 billion of that comes from improved management of the Pentagon, which I'll be happy to talk about this morning. That's incorporated within the $167 billion.

To look at the 1991 program itself, if you take the program Congress passed last year, the fiscal year 1990 defense budget, and run that out to 1991, the cost of that program would have been $317 billion. It included 28 divisions in the Army, 36 wings in the Air Force, 560-some ships in the Navy, and the B-2 program that was authorized by Congress last year, and the submarine programs—all of the programs that were in the pipeline that had been approved, What we're submitting to you is a budget of $295 billion. We've cut some $22 billion out of the 1991 budget.

To do that, we've got program terminations, we've got base closures, we've got force structure cuts, we've got a package of deferrals, we've got a freeze on civilian hiring. There's also a freeze right now, a 90-day freeze, on military construction. I've ordered a 12-percent cut in the OSD staff. That is the staff that supports the Secretary of Defense. We've done everything we can and will continue to do things to try to find ways to squeeze the overall costs of the Department.

PROGRAMS TERMINATED IN THE FY 1991 BUDGET

($ in Millions)

SYSTEM	FY 1991	FY 1991-1994
V-22 OSPREY	(-1,395) *	-6,468
F-14D Aircraft	(-469) *	-1,991
Army Helicopter Improvement Program (AHIP)	(-328) *	-1,400
PHOENIX Missile	(-333) *	-614
M-88A2 Improved Recovery Vehicle	(-90) *	-309
F-15E Aircraft	(+ 303) *	-3,317
Apache Helicopter	-682	-2,528
M-1 Tank	-1,086	-6,249
Maverick Missile	-367	-743
Air Force Airborne Self Protection Jammer	-264	-1,199
Combined Effects Munition	-142	-399
SEA LANCE ASW Standoff Weapon	-156	-975
Non-Line-of-Sight Missile	-131	-1,202
Advanced Short Range Air-to-Air Missile	-7	-46
Follow on to F-4G Wild Weasel	-12	-176
Air Base Survivability	-19	-130
Chaparral Missile	-26	-157
MK 19 Grenade Launcher	-20	-130
OV-1D Aircraft Mod Program	-37	-120
Autonomous Precision Guided Munition	-27	-114
TOTAL	**-2,976**	**-28,267**

Program terminations: Although I haven't checked—I'll have to have the staff check it out—I would venture to guess that I have probably recommended canceling more programs than I don't know how many of my predecessors, or how many have been recommended in the last 15, 20, 25 years. We start at the top, the V–22 OSPREY. Nice system. I recommended it for cancellation last year. We didn't get the job done. Congress decided to keep funding the R&D level. We're back again in 1991 recommending to the Congress that we not go forward with the V–22, not because it isn't a good system but because it costs a lot of money. It saves $6.5 billion over the next 5 years if we don't do the V–22. Classic case where I'd like to cancel a program, but, Congress hasn't let me do it.

The F–14D aircraft is one I recommended for cancellation last year. Congress in its wisdom decided we should buy 18 more. But I think we finally got the job done on cancellation. That's new production of the F–14D. We need the D's. We're going to have the D's in the force, but we're going to get it by remanufacturing the old "A" model. By upgrading the old "A" model, we can do that for about half the cost of building the new one.

I recommended the AHIP, now called the Kiowa Warrior Program for cancellation last year. Congress did cancel it, but only after adding money back in to buy an additional 36 aircraft in fiscal year 1990. My fiscal year 1991 contains no funds for the Army Helicopter Improvement Program.

The PHOENIX missile goes on the F–14 aircraft. If we're not going to buy new F–14D's, we don't need to buy new PHOENIX missiles.

The M–88 Improved Recovery Vehicle we cancelled last year.

The F–15E aircraft; I recommended last year that when we get to 1991 we shut down that production line. This is 1991, and I'm recommending that we close the production line on the F–15. The F–15E is a good aircraft; 200 of them are now in the inventory. We don't need any more, and I'm going to recommend shutting it down.

The Apache helicopter. The Apache helicopter is one of those systems that was designed specifically with the war in Central Europe in mind. The idea to have a helicopter capable of killing heavy Soviet tanks in that hypothetical battle in Germany. We will have procured 807 Apaches by the end of fiscal year 1991. We will not need any more. I'm going to recommend shutting down the production line so that our Army aviation resources can focus on the timely procurement of the LHX.

The M–1 tank. The M–1 tank is a great tank. It's now being produced at two production lines, one in Ohio, one in Michigan. I'm going to recommend that after the fiscal year 1991 procurement buy, we shut down the M–1 production line.

Chairman **Sasser**. Mr. Secretary, on the question of the M–1 tank, it appears to me you're going to go ahead and buy 225 M–1's in 1991 and pay for them with funds out of 1990. Am I reading your statement correctly?

Secretary **Cheney**. That's correct. We're going to finish the 1991 buy on the M–1, and we will do that by deferring a number of items that are nonessential.

Chairman **Sasser**. So some of these items that you're telling us are being deferred here in your chart, are those funds actually being transferred to purchase other items? For example, as I read your statement, you're spending $1,359 million to purchase an additional 225 M-1 tanks for 1991.

Secretary **Cheney**. Senator, none of these on here are deferrals. These are all cancellations or terminations. I've got a separate list of deferrals of 1990 money items on which we recommend deferring the authorization into 1991 and using the funds to finish out the buy, specifically on the M-1 tank and F-15E.

Chairman **Sasser**. When we say we're terminating the M-1 tank; we're going to terminate it after we buy $1.3 billion more of them in 1991.

Secretary **Cheney**. Yes; 1991 is the last year for procurement on the M-1 tank; however, only $860.3 million is required to support the fiscal year 1991 tank program. Now, separate and apart from our buy, the Saudis and the Egyptians have expressed an interest in buying tanks, and that will finish out the M-1 production line, which we will then lay away.

Chairman **Sasser**. Well, let me see if I understand this, because I read your statement and I was confused. In other words, we're going to go ahead and buy the tanks in 1991 with 1990 money, and we're going to do the same with $3 billion for an additional 150 F-15E fighters. We're buying them in fiscal year 1991, but paying for them with fiscal year 1990 money.

Secretary **Cheney**. Our deferral package of $1.4 billion includes $499 million to partially fund the F-15E, with the rest for the M-1 tank buy out.

Chairman **Sasser**. And those funds are coming out of programs that you're canceling or deferring.

Secretary **Cheney**. Deferring, Senator.

On the M-1 tank, we will have almost 8,100 of them in inventory when production is terminated. We will finish out the buy by producing some 60 M-1A2 models that will give us the latest state of the art M-1 tank and have the production line in effect closed down and laid away, equipped to produce that latest version of the tank. Then we'll move on, and instead of investing in current procurement, we'll put the money with respect to tanks into future R&D and looking at the Block 3 tanks so that we focus upon future needs and the need to improve and develop the technology instead of current production. But, again, if we're going to shrink the size of the force, if we're going to have fewer divisions, if we're less concerned about that threat of a Warsaw Pact attack into NATO, we don't need as many M-1 tanks as we once thought we did. That's why we're going to close the line and complete the buy in 1991.

With respect to the Maverick missile, again, that's a question of inventory. The original buy was far larger than the one we've got, but we think we've got plenty of them. And we're going to shut it down.

Chairman **Sasser**. Don't you have 14,000 Mavericks?

Secretary **Cheney**. No; I think it's even more than that, Senator. But all of these go down—some of these are systems like the SEA LANCE ASW standoff weapon, which is one that, we've never quite gotten to work right. We continue to have problems with it. This is a list of programs that over the 1991–94 time frame will save us over $28 billion as a result of the cancellations.

FORCE STRUCTURE CHANGES IN THE FY 1991 BUDGET

(Dollars in Millions)

	FY 1991	FY 1992-1994
Deactivate Two Army Divisions	-1,227	-4,940
Retire Two Battleships	-75	-534
Retire Two Nuclear Cruisers	+ 9	+ 99
Deactivate 8 SSNs	-232	-105
Marine Corps Artillery Batteries	-5	-44
Deactivate 14 B-52s	-71	-246
Minuteman II	-128	TBD
WC-130 Weather Reconnaissance	+ 5	-
TOTAL	**-1,724**	**-5,770**

Now, we also have some force structure reductions. One of the things that I feel very strongly about and on which I've been educated by General Powell and the Chiefs, and a lot of folks in the military, is the notion that if we're going to have fewer resources, it's absolutely essential to we shrink the size of the total force so what's left is a quality force. A force that has the best people with the best training and the best equipment, high levels of readiness, et cetera. Far better to do that than go back to the hollow army.

What we've got here is the decision to deactivate two Army divisions. That's specifically the 9th Infantry at Fort Lewis and the 2d Armored at Fort Hood. We're going to take two battleships out of the force, including the Iowa; rather than repair it, we'll just put it up in mothballs. We're taking down two nuclear cruisers. You have to spend money to take down nuclear cruisers because of the need to decommission them and to make them relatively safe after they've operated.

We're going to take eight nuclear attack submarines out of the inventory. Those are some of our older boats.

Chairman **Sasser**. Do they come out as a result of treaty commitments?

Secretary **Cheney**. No; these are attack submarines, not ballistic missile submarines. So they aren't affected by any treaty, Senator.

The Minuteman II force at the bottom, this does not signify any reduction in the number of Minuteman II missiles currently deployed. The Minuteman II's are our oldest land-based ICBM force. A single warhead system, it was first deployed in 1966. It has been a good system, but you need to spend money to keep an old system like that up and ready and to maintain the same constant state in terms of reliability.

What we're going to do is not spend the money in 1991, $128 million that would go for upgrading the Minuteman II, in the expectation that if we get a START agreement, then in 1992 we can start taking the Minuteman II's out of force, take them down about 64 a year over a period of 7 years. That will wrap up the 450 Minuteman II's by the end of the 1990's. But, again, that's conditional upon a START agreement and upon final decisions being made with respect to what the total force structure is like. In the meantime, we can save $128 million this year.

These are some of the key items that we want to spend money on with respect to the 1991 budget. I think they're basically self-explanatory. The Counternarcotics Program is about a three-fold increase over what it was just 2 years ago. The B-2 bomber, again, that's a figure that was agreed to by Congress late last year in the conference agreement, when we agreed to buy two B-2's in 1990 and five in 1991. The SDI program shows an increase that we think is essential if we're going to continue on the path, not only of a robust R&D effort, but also of being able to make a deployment decision in the near future. Every time we cut the SDI program, we postpone any prospects for a deployment decision in the near future.

The Trident program continues apace, a very successful program. This is the money for the 18th Trident. The Trident II missile which we had some difficulties with last year, is now back on track. We've had five straight successful tests with it.

The SSN-21 attack submarine is our new attack submarine that we think is important. We've got two of those authorized here, et cetera.

KEY PROGRAMS IN THE FY 1991 DoD BUDGET
(Current $ Millions)

	DOLLARS	QUANTITY
Counternarcotics Program	1,208	-
B-2A Bomber	5,536	5
SDI Program	4,471	-
PEACEKEEPER/Rail Garrison	2,836	12
Small ICBM	202	-
TRIDENT Submarine	1,453	1
TRIDENT II Missile	1,746	52
SSN-21 Attack Submarine	3,669	2
DDG-51 AEGIS Destroyer	3,681	5
C-17A Aircraft	2,717	6
F/A-18 HORNET Aircraft	2,123	66
F-16D FALCON Aircraft	2,973	150
Chemical Demilitarization Program	431	-
Environmental Restoration	817	-
Dedicated Equipment for Guard & Reserve	455	-

Now, there are, in this connection, funds for the C-17's, F-18, and F-16. One of the things I've asked be done as part of our long-range review in developing our 1992-97 program is to look at some of our big programs that frankly are big ticket items that cost a lot of money, and assess whether or not there's still a requirement for them and whether or not this is the best way to settle the requirement. Those programs include the C-17, which is our basic new transport aircraft; the B-2 bomber; the ATA and the ATF, our new generation attack and new generation air superiority fighters. Those are high cost systems that are now in various early stages of development. Don Atwood, Deputy Secretary, and John Betti, the Under Secretary for Acquisition, are conducting a major study on those four systems now as well. We also have another complete review under way on the SDI program.

Finally, Mr. Chairman, let me just say a word or two about our long-range planning process. As I mentioned at the outset, we are in the midst of thinking about designing what our long-term plans within the Department in light of changing-world requirements. This is a risky business given the pace of change that we see in the world, but we think we can begin, if you make certain assumptions, to think about the kind of force we'd want to have 5 years down the road.

What we've looked at overall is the notion that we would, for example—and, again, all of this is conditional upon developments—take a total of five divisions out of today's Army. Instead of 28 divisions, we'd be down to 23 divisions; that we'd go to 31 Air Force fighter wings. When we say reexamination of Trident and other ship construction, we don't know how many Tridents we're going to need yet. We haven't made that decision, but we can begin to think about what that force ought to look like, assuming we get a START agreement. If a START agreement allows, for example, 18 countable Tridents, we may have 20 or 21 if there's a provision—which we think there will be in the START agreement—that allows us not to count ships in overhaul. Other ship construction is crucial there too. We're clearly going to end up with a Navy that's a lot closer to a 500-ship Navy than a 600-ship Navy.

All of those other kinds of questions in terms of the balance between military and civilian forces, between active and reserve, are all subjects that are up for grabs. But I think at this point, Mr. Chairman, we have tried very hard to come forward with a budget in 1991 that does, in fact, reflect what we see by way of changes in the world that preserves the elements of what we think is essential in terms of protecting the nation's security, and would allow us 5 or 10 years from now to be able to look back on this period of time and say that we did, in fact, do what had to be done. We did, in fact, undertake a build-down, a careful, orderly restructuring of our forces; we maintained the base that we would need should events turn around and we'd have to rapidly expand again; we preserved our deterrent capability which, as the Chairman mentioned, is at the heart of our overall requirements, the need to be certain that we can deter any attack against the United States. Finally, we preserved the quality of force, Mr. Chairman, a force who performed so ably in Panama during Operation Just Cause just a little over a month ago.

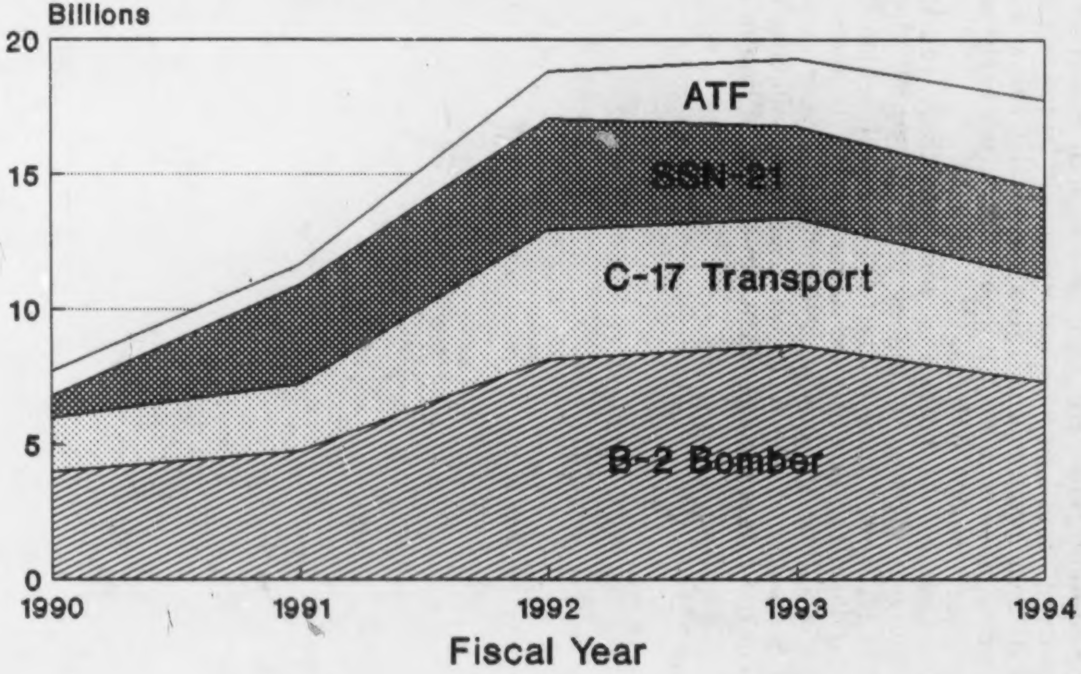
Thank you.

Chairman **Sasser**. Thank you very much, Mr. Secretary.

There are a few things that come to mind immediately following your presentation here. One, you've indicated that you think it's important—and I agree—that we should be preserving flexibility in our defense programs at this time. And I think a critical part of that flexibility is not getting committed too early on these various big-ticket weapons systems.

I noticed on the bottom of your last chart you indicated that a review was ongoing on, among other programs, the B–2, SDI, and the C–17. Now, I have a chart there myself which indicates that if we go down the line of purchasing the B–2 bomber—I think you've got $5.5 billion in your budget for it this year—and the C–17 and the Seawolf and the ATF, we're creating an enormous bow wave out in the future that peaks at almost $20 billion in 1992–93.

1991 Bush Request: Procurement Bow Wave Untouched



Now, these are very uncertain times. We do need to maintain flexibility. Why are we going forward and spending these very large sums of money on things like the B-2 and things like the rail-mobile MX? Why don't we wait and see what kind of world we're going to be living in here in just a very short period of time, rather than going ahead and committing ourselves to these programs? I think we can agree to keep the R&D going and maintain the flexibility. But why go ahead and start procuring these things?

Secretary CHENEY. Well, Mr. Chairman, as I indicated in my testimony, we have studies under way that relate specifically to three of those programs—the ATF, the C-17, and the B-2. You should add the ATA which is also a big-ticket, long-term item if you're worried about bow wave. I inherited all those systems. I inherited the bow wave. That's what Congress approved at the recommendation of the administration.

You have to look at each one, I think, on its merits in terms of deciding: Do we have a requirement for it? Has the requirement changed? Is there some other way to satisfy the requirement? What the pace of building ought to be now, to what extent we ought to continue them at their current program or slip them.

With respect both to the C-17 and the ATF, the fact of the matter is, in the 1991 budget we submitted to you, we slipped both of those in order to take advantage of developments and also because of problems with respect to going forward before we were confident with full development. We've taken about a half a billion dollars out of both those programs in 1991 because we weren't confident about them. But we also have a review underway to determine whether or not we want to continue with these programs in the way they're currently in the budget. And, I will be the first to say, I think there are important questions about it.

But it's not clear-cut in each case how we'd want to proceed. The C-17 is a good example. That was designed, obviously, to improve our airlift capability. We spent a lot of time and money on it. It's been viewed over the years as important. We can argue that if we have more warning time in Europe and our requirements to reinforce Europe recede, we will be able to rely more on sealift, and will not need as much airlift as we did before. On the other hand, if we look around the world and conclude that we're less likely to have forward basing in future years than we've had in the past, there may be an argument for it.

Those are the kinds of questions we're looking at right now.

Chairman SASSER. Well, Mr. Secretary, I understand that you inherited a lot of these programs, and I'm sympathetic to that. And I understand that they were approved by the Congress. But I think what we're driving at here is that times have changed since Congress approved these programs.

When will your review be complete?

Secretary CHENEY. Well, we hope all of this, of course, will feed into the 1992-97 POM, so that when we come up a year from now, the new 6-year plan will be laid out. In many cases, we will have information prior to that time so that before we go to markup we would hope later this year, in the House and Senate Armed Services Committees, we will have completed some of this work. My agreement with the chairmen of those committees is that we will feed it into them as rapidly as it's completed.

Chairman **Sasser**. Well, it would appear to me just looking at this, Mr. Secretary, that we'd be better advised to push these programs off until your review is completed and you can present to us the program of your administration at the Department of Defense, rather than getting involved in these very expensive programs at this time. The way events are moving, who knows what you might recommend to us within 60 days or 90 days down the line?

For example, you're testifying this morning that our warning time has been substantially lengthened, yet in reviewing your prepared statement, I note that you're taking about half a billion dollars, if memory serves me correctly, out of fast sealift and putting that into completing the purchase of M-1 tanks and purchasing more F-16 fighter aircraft, even though we're talking now about demobilizing 5 additional tactical air wings in your 5-year plan.

It appears to me we're sort of pulling against ourselves in some of these instances, and it appears to me we ought to hold off until we get your final review. What's your reaction to that?

Secretary **Cheney**. Well, Senator, I would suggest the following: First of all, we are in 1990. All of these programs that are up here are back over here clear to the left-hand end of the spectrum. They're all basically in various stages of R&D, if you will, with the exception of the SSN-21, which, of course, we're starting now into procurement.

These programs are not the kind you can shut off without adding significantly to the cost. We're not at the point yet where we have to make the full rate production decision on the C-17, for example, to go for major procurement of all 210 aircraft that we were originally expected to buy. With respect to the B-2, what we're looking at now is whether or not we can reduce the overall buy, change the funding profile, all of those kinds of issues are under review. But you're not going to affect what's going on right now. That's already been authorized, signed off on, and they're in the early stages of development.

To change them in 1991, I think, is going to depend upon whether or not we are able to produce the kinds of findings and results that we anticipate from our current studies. But, again, I come back to the proposition that we're working off the 1990 budget that this Congress approved just a few months ago. The conference agreement was signed in November. That's what calls for us to go with five B-2's. I don't expect that we're going to cancel the B-2 program. We may well come up here with a restructured B-2 program for the Congress to consider as a result of our ongoing study.

Now, the ATF is in the earliest stages of development. We haven't flown the prototypes yet. We hope to be able to do that in 1990. We aren't going to make a decision, nor do I think Congress is going to make a decision that affects the 1991 budget which is the one that's before you at present that would be significantly affected by that or that would benefit from a decision not to act. The fact is it's going to take time before we get to the point where we cross the bridge, where we, in effect, say yes, we're going to buy several hundred of these aircraft.

Chairman **Sasser**. Mr. Secretary, there are news reports circulating which you may have seen—I know I have seen them—and there are those in the administration who are saying that Defense can take a sequester, that we are going to go ahead and take this thing down to the wire and the boys over there in the Pentagon, well, they can handle a sequester.

Now, this is going to reduce your budget authority, as we calculate it here, down to $286 billion, with $288 billion in outlays. In other words, under a sequester, you would be coming in $15 to $20 billion in outlays below your requested level.

My question to you is this: Has anyone in the administration suggested to you or discussed with you the possibility or probability of a sequester? And if a sequester did take place, what impact would that have on Defense posture, personnel, et cetera? Perhaps General Powell would like to respond to that also.

Secretary **Cheney**. Senator, the idea of a sequester is never a pleasant prospect for somebody who is trying to run a Federal agency, especially one as big as the Department of Defense. What happens, of course, is that it is all geared to outlays and it plays havoc with any sort of rational management of the department.

We had to eat a one-third year sequester this last time around. I must say, as one of the House sponsors of the original version of Gramm-Rudman, my perspective changed slightly when I became Secretary of Defense and I had to implement the consequences of my actions.

I think obviously you would like to avoid a sequester. I am hopeful, as I think the administration and the President would be, that Congress will, in fact, do what it is charged with doing, which is develop a budget resolution, get it through both houses and then implement it, pass a reconciliation bill and hit the target.

Chairman **Sasser**. Well, have you carried that message to Governor Sununu and the Director of the Office of Management and Budget, Mr. Darman?

Secretary Cheney. Well, the prospect of a sequester this coming October seems like a long ways away when you are Secretary, so I think we will wait until then. Obviously, if we have to take a sequester, as we did this past year, we will take a sequester, but I think it would be better if Congress can pass a budget resolution and reconciliation measure that obviate the need for it.

Chairman **Sasser**. My time is almost expired and we have got a lot of Senators here to ask questions today, so we will call now on Senator Domenici.

Senator **Domenici**. Mr. Secretary, let me just touch on two points, the strategic situation in the world and, secondly, program terminates such as the M–1 tank which will cause production lines to be closed in two States, I want to ask a couple of questions about how you envision such major episode in terms of the economics of those States affected and whether you think there is adequate protection for those States on the books. If there is not, I think we are going to see a rash of efforts to protect against major and significant economic degradation in those communities affected by terminations such as an M–1 line being closed.

Let me take my first point. Mr. Secretary, in the modernization of the TRIAD, with the B–2 and the like, is there anything in your proposal that is inconsistent with the current negotiations regarding strategic arms reduction?

Secretary CHENEY. No, Senator. The strategic modernization program that is currently being worked that Congress has supported, and that President Bush and President Reagan before him have asked for, is entirely consistent with the START Agreement. That is, it assumes that we will have a START Agreement and it would continue accordingly, with or without START.

Senator DOMENICI. Mr. Secretary, with reference to the Soviet strategic forces, we are hearing that there is no indication of a build-down. Quite to the contrary, you and others continue to articulate that the Soviets are in a position of modernization and buildup. Obviously, we are in an open session here, but let me just ask: You are genuinely advising this committee and others that, when it comes to the strategic forces of the Soviet Union, even in this condition of chaos, that you are of the opinion that they are not building down, but, rather, modernizing and improving their strategic capabilities, is that correct?

Secretary CHENEY. That is correct, Senator. In effect, what we see is the deployment—I believe they are up over 200—of S-25's, the road-mobile system, while they continue to deploy the SS-24, which is being deployed in two versions, both on rail and in silos. They are also modernizing their SS-18 force, but only half of it. Of course, there is a preliminary agreement in the START negotiations for them to give up half of the 308 SS-18's they now have, so they are modernizing the 154 that they would keep, with the new so-called MOD-5 version.

Last year the Soviets deployed two new ballistic missile submarines, the sixth TYPHOON SSBN, and also the DELTA-IV. They continue to produce about one DELTA-IV a year, they continue to build Blackjack bombers at a slow rate. The point is that there has been no unilateral reduction or elimination or termination of their efforts in this area, the way we have seen some changes with respect to conventional force posture.

Senator DOMENICI. Mr. Secretary, it has been this Senator's opinion that the only reason the President ever went to Malta, was because of their Soviet strategic forces. I see no other reason for our negotiating, than to prevent the potential cataclysmic consequences of the use of their strategic forces. Is it the assessment of the Department of Defense that the strategic capacity of the Soviet Union remains a major and significant tool of the Soviet Union, both in terms of their position in the world and in their negotiations with the United States?

Secretary CHENEY. That is absolutely correct. I think the main reason—I will not say the only reason, but the main reason—the world is as interested as they are in what is going on in the Soviet Union, is because of their enormous military power. They are a super power only because of that capability and, while they may restructure it, I do not see any likelihood they are going to give that up.

Senator DOMENICI. Mr. Secretary, it has been my assessment——

General POWELL. Senator, may I add just a word or two on that?

Senator DOMENICI. Excuse me, Mr. Chairman.

General **Powell**. Senator, with respect to your first question about the strategic modernization program, when the JCS made their military judgment on the emerging START Treaty and the framework of that START Treaty, it was with the assumption that we would have this strategic modernization program that you see before you. So we have been anticipating that we would have the B-2 bomber and the mobile system that we have talked about, because that was the basis upon which we found the emerging START Treaty to be an acceptable framework, and I would merely echo what the Secretary said with respect to Soviet efforts and their strategic modernization program.

In the last 4 months, the 4 months that I have been Chairman, I have met with the two top senior people in uniform in the Soviet Union, I have had direct conversations with both of them and they talk about the negotiations and they talk about unilateral reductions and they talk about conventional forces. When you finally say to them that is wonderful, what about strategic reductions, Senator, they do not even bother to engage, they change the subject, and they are making no modifications to their strategic modernization programs.

Senator **Domenici**. Mr. Chairman, would it be fair for me to assess that the one thing that keeps us in a position of balance with them is our technological capability and the evolution of such weapons systems as the B-2, which has been in the state of development for some 15 years. Is it that kind of cutting-edge technology which is part of the strategic TRIAD that is a source of great concern to the Soviet Union, and keeps us in a state of strategic balance? Is that a fair statement?

General **Powell**. Yes, Senator.

Senator **Domenici**. So, is that one of the reasons, for continuing the strategic modinization program that people like you recommend that we continue with these cutting-edge technological advances?

General **Powell**. I agree with your assessment, Senator.

Senator **Domenici**. Thank you, Mr. Chairman.

Chairman **Sasser**. Thank you, Senator Domenici.

Senator Riegle?

Senator **Riegle**. Thank you, Mr. Chairman.

Let me say I appreciate very much the job that both of you are doing. These are difficult assignments, especially with the major transitions that are under way, and I just want to say that I appreciate the service that both of you are giving.

With respect to where we are, however, with the collapse of communism as a social system and as an economic system, it seems to me that we have a huge military force. I mean we are loaded to the teeth. I know that you want more things, but just our nuclear arsenal alone is almost beyond comprehension and, of course, we are still bringing new warhead systems on-line all the time.

I am concerned about the fact that we have got an economic structure problem in this country that is far more serious, in my view, than any realistic definition of a military threat that we might face in the world. As I look at our situation, our economic problem globally involves not just the Pacific rim, with Japan in the lead, but it is also increasingly Western Europe, with Europe

1992 coming down the line. And here we are with the anomaly of enormous troop deployments in Europe.

I applauded the President the other night in announcing that we are going to make some troop reductions. Even so, as I understand it, he is talking about going down to a level of 195,000 Americans, many of them I think with dependents as well. How much are we spending presently on an annual basis; What's your best estimate of U.S. troop deployments in Europe?

Secretary Cheney. Senator, we would be happy to submit that for the record. I do not think I could say precisely. There is a report we submit on an annual basis to the Congress that tries to capture that. It has never done it very successfully.

Senator Riegle. But it is tens of billions, is it not? I mean——

Secretary Cheney. Yes, but how do we count it. The M-1 is——

Senator Riegle. You count it by how much it costs you to keep them over there. I mean if you do not have them over there, then you do not have to count it because you are not spending it.

Secretary Cheney. That is right, but remember, that is about 325,000 max of the total uniform military, of about 2.1 million. On the other hand, if you look at our investment, for example, in ground forces, obviously that has been driven as much as anything by our requirement to fight the Soviets in Europe and has been behind the emphasis on things like the M-1 tank and the Apache helicopter, not that you would not have needed some equivalent. So, it is difficult to break down precisely. Our strategic forces are also tied, obviously, to the defense of Western Europe, but clearly it is a lot of money.

Senator Riegle. Let me tell you what I am concerned about. We see this from the vantage point of our economic situation as we try to measure it in the Banking Committee. We are now the number one debtor nation, as you know. We are adding international debt as a country at the rate of $1 billion every 3 days and we will very shortly, within 3 years, hit a $1 trillion international debt.

The Europeans, for example, have an enormous financial edge in the transfer through the trade accounts today, as do the Pacific rim countries, led by Japan. I do not think we can continue to afford to maintain our current level of troops abroad. Nor should we. Nor do I think the threat, as it has now radically changed, requires us to maintain anything like 200,000 or so American troops in Europe.

Why would it not make more sense for us to acknowledge the new situation we find ourselves in. You folks should have the numbers, and I do not say that disrespectfully. But I think the question now is, how do we start to save some money and still maintain our international strength, not just military but economic as well?

I would think that we ought to be thinking about bringing most of those troops home. By most, I mean leave a force that, in effect, is a trip-wire force that shows our good faith in the event of any kind of realistic invasion of Western Europe. The invasion we currently face involves people who are coming through the Berlin Wall who want to live in Western Europe. They are not coming to fight us. They are coming to be like us.

So, it seems to me we would be much better off to actually have a major revision in our strategy and get away from what I think of as sort of a Maginot Line kind of strategy and concept and actually think about basing those troops in the United States. You would have them in a readiness form, so that in some extreme situation you could take them to Europe, which I do not think is in the cards. But, nevertheless, if it is thought they might have to be deployed, then you base them in the United States, you let their dependents live here, you spend the money here, you keep the money in your own society, you allow the money to recycle through the American economic system and you do not, in fact, burn up tens of billions of dollars—and we are talking about some multiple of tens of billions of dollars for American troops based in Europe. And you are still in a position to maintain your capacity to respond to an authentic emergency.

I think we need a sharp revision in our thinking. I think we have also got to stop continuing to add a very substantial number of nuclear warheads to the arsenal. That is a separate question. But just getting the troops back home and basing them here and keeping the money associated with that degree of readiness in our own society, I think, would have an enormous economic benefit. And I think if you are doing anything that adds to our international debtor nation status that you can find a way to solve, you have got to consider the economic effect now, side by side with the military considerations and questions, I would just ask you to do that and I would like to help you do it.

I do not say this in a confrontational way, because I think the President has signaled a shift in direction and I think we want to go in that new direction, but probably at a faster rate.

Secretary **Cheney**. Senator, if I might just briefly respond, in terms of the question of the total number of nuclear weapons we have, if you go back over the last 15 years, you will find there has been a steady reduction in the total number of nuclear weapons in our inventory, because we have taken out a lot of the short-range stuff, taken down a lot of the artillery stuff. I mean there has in fact——

Senator **Riegle**. Do we not have now well over 10,000 in the inventory?

Secretary **Cheney**. We have over that, but my point is that we have been reducing steadily and if we get a START Agreement we will reduce even further.

With respect to the question of troops in Europe, the European commitment involves more than just what is stationed there. The heart of our strategy has been, of course, not only having four and two-thirds divisions in Europe, but also having a lot of forces in the United States whose prime purpose was to go to Europe in the event of war. So, we have had an obligation, for example, within NATO to get ten divisions in Europe within 10 days of a decision to mobilize. We have four and two-thirds there and we have to move five-plus divisions to Europe in that period of time. We would never be able to get them there that rapidly, but that has been the requirement. So, something like the 2nd Armored Division at Fort Hood that we are going to deactivate in 1991, has a brigade forward deployed in northern Germany and its basic mission is to go to Germany in wartime. So, when you talk about shrinking sort of the European committed forces, you have to talk about the Continental United States as well as what is in Europe.

The second point I would make—and I would ask the Chairman to comment in a second on the level—with respect to cost, the only way we can make the kinds of savings that we are recommending here is to take divisions down, to demobilize, deactivate, put them away, get rid of the equipment, get rid of the people, get rid of the bases.

If you simply bring home a unit from Europe and base it in the United States, you do not save very much money. So, the kinds of savings that we——

Senator **Riegle**. Now, wait a minute. You do save some money and you keep the money in the country.

Secretary **Cheney**. Well, but you do not——

Senator **Riegle**. You fellows do not seem to understand that.

Secretary **Cheney**. But what I am suggesting, Senator, is we are never going to get to the levels of funding that we are recommending if we keep that many divisions. If we bring them home, we have to deactivate them. Everybody is concerned about the cost of our strategic systems, and there clearly are some big ticket items in there like the B-2. But as the Chairman pointed out, less than 15 percent of our budget goes for strategic systems, the big dollars are in conventional forces, manpower, that conventional force structure, and that is what we have to reduce to get the kinds of savings that the President is recommending in his budget.

I would like to ask the Chairman to say just a word about the troop level and why the 195,000 in Europe.

General **Powell**. Thank you, Mr. Secretary.

First of all, you have to bring them home and get them out of the force, Senator. Otherwise you will be into building new bases, new construction, new facilities, and you will not find the savings you are looking for, even though you may flow some of the local spending back into domestic spending here, rather than local spending in Europe.

The number 195,000 was not pulled out of the air, it has a military coherence to it. It represents the level at which we believe we can go down to and still have the guts of the strategy intact. Where we could have two divisions as part of a single corps, not a Maginot Line by any means, we will keep a flexible defensive posture in Europe, with the infrastructure in place, so that if an emergency does develop, there is an infrastructure in Europe reinforcing forces can go back to, fall in on and execute a line of strategy.

If you go significantly below that, then you are into an entirely new strategy. You have a tripwire that when it is kicked over by hostile forces, there is no coherent force to respond. You will not have the time to bring back significant forces if there is nothing there to begin with.

So, 195,000 was the number that was arrived at in consultation with the commanders in Europe. It is a number that General Galvin came up with and which has been supported by the Joint Chiefs of Staff, and we believe it is a solid number. I would also point out that it is a number that brings you down some 90,000 or so from the current levels.

[The following material was submitted for the record by the Department of Defense:]

The Department is currently updating its "Defense Overseas Funding" report to reflect the impact of FY 1989 execution, congressional action on the FY 1990 President's budget request, and the force structure decisions included the FY 1991 President's budget request. However, the "Defense Overseas Funding" report of February 1989 estimates the following costs to support U.S. forces in Europe in FY 1989.

[In millions of dollars]

	Total estimate[1]	Dependent support
Federal Republic of Germany	14,579.8	1,823.1
Italy	1,001.4	145.5
Belgium	457.1	32.1
Denmark	106.1	2.2
Greece	195.9	21.6
Netherlands	276.2	38.6
Norway	5.7	3.0
United Kingdom	2,219.3	258.5
Portugal	130.3	13.3
Spain	579.5	93.8
Iceland	225.4	23.5
Total	19,776.7	2.445.2

[1] Including dependent support.

The amounts reflected above include the costs that the Department expects to incur in the Operation and Maintenance, Military Personnel, Family Housing, and Military Construction appropriations. The costs reflected above include the total annual costs of operations including personnel compensation and benefits, unit training, medical costs, and base operations support. A substantial portion of these costs would still be required if the troops were based in the United States.

Senator **Riegle**. Mr. Chairman, my time is up. I am told that we do have a fair number of new nuclear shells coming on line this year as requested in this budget, so we certainly have not stopped our building. And these are not cheap. I would not want that suggestion by some——

Secretary **Cheney**. My only point, Senator, is that we are shrinking the total inventory of nuclear weapons and have been for many years.

General **Powell**. Particularly in Europe, Senator, and as part of that shrinking, that which remains was to be modernized, which is what is in the budget for this year.

Chairman **Sasser**. Senator Grassley?

Senator **Grassley**. Mr. Secretary, before I have discussion with you, I want to set the format. I believe that everything I am going to discuss with you today, I would be discussing with you, regardless of the Berlin Wall going down. Secondly, I would like to read from the final paragraph of an opening statement I would have made. I would like to say that Secretary Cheney and his staff deserves an A for effort and has shown a sincere desire to reform the Pentagon.

What shortcoming there are to date, in my mind—and this is in regard to the DMR reflect resistance by the bureaucracy and that obviously does not want to be reformed.

Mr. Cheney, I evaluated the recent implementation progress report that you provided to Congress and the justification of the estimates of the savings, and let me point out that what appears in my mind to be disconnects between the promise of the DMR and what is contained in the implementation plans with respect to the decisionmaking framework, there appears to be a lack of clear-cut objectives and long-term resource requirements associated with those objectives which were referred to in the DMR respectfully as the program planning objectives and the 20-year roadmaps, and this is where I would like to have you comment. These apparently have been forgotten in the implementation plans, the 20-year roadmaps and the PPO's.

Secretary **Cheney**. I would disagree with you, Senator. I would think that the package of items we put in with respect to our overall defense management review are good ones. I assume that is what you made reference to when you talked about implementing the report.

Senator **Grassley**. Yes, but I do not find fault with the objectives, but for the short term it seems to me like, in the budget we are dealing with, that there is a disconnect between what you said you were pointing out for the 20-year roadmap, where you wanted to be, you know——

Secretary **Cheney**. Well, a 5- or 6-year roadmap is tough enough. I am not sure anybody at this point could tell you 20 years out.

Senator **Grassley**. But you want planning according to 20 years.

Secretary **Cheney**. Well——

Senator **Grassley**. That is what you said you wanted.

Secretary **Cheney**. In my presentation here this morning?

Senator **Grassley**. No, no, in the objectives that you stated in your DMR.

Secretary **Cheney**. You are going back to the DMR of last summer?

Senator **Grassley**. Yes.

Secretary **Cheney**. Correct, we would like to be able to significantly improve the overall management of the department. We think it is a very long-term proposition and there is no silver bullet, no magic answer that you can cite out there that is going to turn it around overnight. It takes continuous, constant effort over a long period of time.

Senator **Grassley**. Well, so you are saying that the PPO's and the 20-year roadmaps are not left out of the short-range efforts to implement the plan?

Secretary **Cheney**. Senator, I am not sure what you are referencing. I can tell you specifically, and I would be happy to talk with you about it, with respect to the Defense Management Report, I refer you to what we released and sent to the Hill just last week, or on January 29, I guess, as well as what we briefed the press on January 11. This is the latest status report on what we are doing in terms of the Defense Management Review, specific savings, and the justification for the $39 billion that we think we can get out of the budget in this area over the course of the next 5 years.

Senator **Grassley**. Then I think I need to discuss that with you.

Secretary **Cheney**. I would be happy to talk with you about it.

Senator **Grassley**. With respect to the organization structure, the basis for streamlining in the DMR was identifying the functions and the responsibilities needed to provide proper accountability, but the implementation plans provide for cuts in manpower, staffing, allotments of the acquisition commands, rather than identifying the least useful functions and the associated staffing allotments, and then at that point cutting accordingly.

It seems that a cut of 4,800 spaces was given to the acquisition commands in the Army and the Air Force, and the acquisition commands were left to determine which functions would be cut, and that seems to me to be the wrong way to approach it. Would you care to comment on that?

Secretary **Cheney**. Well, I think the proposals we have got for reductions in personnel are good ones. I would argue that, from the standpoint of efficiency and accountability, sometimes you get more of it with fewer people, when you make it clear who is in charge or who is responsible for a particular activity.

The package that we put together so far—and I emphasize "so far," because I think there will be more—does identify 42,000-plus jobs that will be taken out of the force—this is in terms of our overall management—over the course of the next 5 years. That includes, for example, some 10,000 jobs out of the Air Force Logistics Command. We have a very specific plan to improve the Logistics Command of the Air Force. We know which bases are affected, we know which people are affected, we know how much money that is going to save. We have looked very carefully at the question of functions.

It has not been, in my opinion, a kind of wild meat-ax approach, but has been done very carefully.

I also find, frankly, that it is useful sometimes in an organization to give them specific targets to meet in terms of savings. As I mentioned before, I have signed an order to my people who work with me in the Office of Secretary of Defense that I want a 12-percent reduction in the workforce over the next 3 years, and I, to some extent, expect that they will find the functions where they are going to get the savings, once they know they have to make that kind of a bogey.

Senator **Grassley**. My time is up.

Chairman **Sasser**. Thank you very much, Senator Grassley.

Senator Conrad?

Senator **Conrad**. Thank you, Mr. Chairman.

Welcome, General Powell and Secretary Cheney. I first want to commend General Powell on the job that you did on the briefing during the events in Panama. I thought you did really a superb job. I was watching on one of the networks and thought you did an absolutely superb job of summing up what was occurring, in a very rational and reasoned way, and Secretary Cheney as well, I thought you did a superb job.

Chairman **Sasser**. I got to turn the charts for him.

General **Powell**. Thank you, Senator. [Laughter.]

Senator **Conrad**. I might say I heard many comments in my home State applauding the work that you had done.

Let me turn to the budget and express to you what I have heard from others, picking up on what Senator Riegle had indicated, that some would say this budget reflects a Maginot Line mentality, perhaps not in the way that Senator Riegle indicated, but in a different way, that we have been defending against one threat for a very long time and we find that our adversaries came from a different direction. As some have said, the cold war is over and the Japanese and the Germans have won, and that the greatest threat to our security is our economic vulnerability.

When we talk about this budget, it is fashionable in Washington to talk about negative growth and that we are cuttin—I think the American people would be surprised to find out we are actually spending $7 billion more than last year, and it raises the issue of what is the appropriate level.

I am told that in our peacetime history pre-1980, we averaged in 1991 dollars $235 billion a year on defense. This budget is proposing $303 billion, in the face of rather dramatic changes in the rest of the world. When I go home, my constituents ask why do we continue to spend massive sums of money on our friends in Europe and our friends in Japan, spending for their defense and then have to borrow the money from them to do it. It just does not seem to make much economic sense.

The question I would put to you, Secretary Cheney, is what would lead you to favor real cuts in defense, and I am talking now in terms of what we spent last year? Is there any set of circumstances in which you would recommend to us that we reduce our force structure sufficiently to actually spend less money than we spent last year?

Secretary CHENEY. Senator, of course, you always get into the argument over nominal dollars versus constant dollars. In nominal dollars, you will see an increase—I do not know what you said, some $7 billion in 1991 over 1990, but that does not tell me what I can buy. I find constant dollars to be more useful because they take into account the effects of inflation.

I would argue that I suppose I could speculate about what I would like to see in order to recommend a vastly reduced defense budget beyond what we are already recommending. Again, I would remind everybody that this is the first reduction in real defense spending that any administration has recommended now in nearly 15 years. But if you were to speculate about that, it is an interesting hypothetical exercise and maybe the Soviets turn over all their nuclear missiles to us. Maybe they will begin unilaterally to take down their own strategic forces. They have not done anything like that and I have to deal with the real world as I find it.

This argument that somehow the defense budget is creating problems for us economically or is an undue burden that is creating the kinds of difficulties we see in terms of American competitiveness or our trade balance or something, I just think is increasingly not a valid one when I look at charts like this one, that show that what we are recommending is going to the lowest level of defense spending as a percentage of our gross national product since before Pearl Harbor. That is a significant cut in defense spending. I think we can go to that 4 percent level safely if we do it well and if current trends continue. But I would question the assumption that somehow the Defense Department or what we are spending on defense is driving us into the poor house. I do not think that is the case. Defense spending has been coming down in real terms every year since 1985.

Senator **Conrad**. I was picking up on the point that you made about the Soviets, that militarily they had spent themselves into the poor house.

Secretary **Cheney**. Right, I think you can make that argument.

Senator **Conrad**. I will tell you, when you look at what we have done, I would have to conclude that, unfortunately, we have done some of that to ourselves. We look at what the Europeans spend on defense, about half of what we do on a GNP basis, our Japanese friends spend about one-sixth of what we do, and they invest the difference in education of their kids and new products that compete with us in the international marketplace, and we wonder why we are losing out. The Soviets and us have been beating each other on the heads and we both have been losing ground in the economic sense, and at some point you have to wonder do we really need 225,000 troops still to be in Europe.

As I understand it, the 195,000 is Central Europe, but we are talking a total of 225,000 troops in Europe. Do we really need that?

Secretary **Cheney**. Senator, that is a significant reduction from where we are today. We have not yet concluded a conventional force reduction agreement. The kinds of reduction we are talking about would assume that. The President has been the one who has taken the initiative in terms of reducing our deployments in Europe, in light of recent developments. We think we have a prudent plan that makes sense.

Let me come back again to this proposition that somehow there is an analogy between what the Soviets did to themselves with their defense spending and what we have done to ourselves. It is a radically different proposition. The official estimate that everybody will agree to is that the Soviets have spent 17 to 18 percent of their GNP on defense. There are those, and I am one of them, who believe it has been much higher, perhaps 25 percent, perhaps even 30 percent; that they have a much smaller economy than anybody thought and that they have spent themselves into the poorhouse on the military. But they get the best resources, the best manufacturers, the best trained people, and that they have, in fact, done themselves enormous damage. This 18 percent or 25 percent or whatever it is is far different than the 5 or 6 percent that we have been spending, and now we are talking about going to 4 percent.

The trends I think are positive, we are taking it down, we are doing it in response to worldwide events. My own personal view is we cannot do it much more radically than that, without putting at risk the Nation's security.

Senator **Conrad**. Let me just say, in relative terms, you find the same relationship between the Soviets and us and us and the Japanese. I mean they have been spending, in your estimates, perhaps four times what we have been spending on a GNP basis. We have been spending six times what the Japanese have been spending on a GNP basis, and it would seem to me the logic would hold. If they have done themselves damage vis-a-vis us, we must have done ourselves damage vis-a-vis the Japanese.

Secretary **Cheney**. Senator, I think we have benefited enormously from the defense money we have spent over the last 40 years. I think we have had peace, and we have in fact secured the world from the potential problems that would have arisen if the Soviets had been unopposed in terms of their massive military buildup. I think the changes we see underway in the East Bloc today are the direct result of our determination and the willingness of the American people to make the commitment and the investment in our military that they have. I think we are reaping the benefits from that now.

I am always eager to pursue a better burden sharing arrangements with our allies. When I go off to Asia in a week, I leave Saturday, I will take the new Ambassador for Burden Sharing, Alan Holmes. That position was established by Congress. We will do everything we can to improve the contribution of our allies to our mutual security. But I do think we need to continue to make an investment, even at lower levels than we have.

Senator **Conrad**. Let me just conclude by saying——

Chairman **Sasser**. Your time has expired, Senator, but go ahead.

Senator **Conrad**. May I just make a final observation, Mr. Chairman?

Chairman **Sasser**. Yes.

Senator **Conrad**. Clearly, the total defense spending that the allies and we have made has been critically important. It is the distribution of the burden of that spending that I question and continue to question.

Thank you.

Chairman **Sasser**. Thank you, Senator Conrad.

Senator Gramm?

Senator **Gramm**. Thank you, Mr. Chairman.

Secretary Cheney and Chairman Powell, let me welcome you to the committee. I want to make a very brief remark in response to my dear friend, Senator Domenici. I believe that there will be a peace dividend to the American economy and the American society, based on what is happening in Eastern Europe, if we continue to move in the right direction. I am a little fearful that we may declare the dividend before the money is in the bank. I hope, in the biblical admonition, that if the lion and the lamb are about to lie down together, I think the world will be better off if we are the lion. I think it will be safer.

But I do believe we will have a peace dividend in the decade of the 1990's. I look back at the post-Vietnam war era. By 1977, we were spending $71 billion in real 1982 dollars less than we spent in 1970 on defense. Defense spending in real dollars declined $380 billion between 1970 and 1977. What do you think happened to the deficit? It went up. What do you think happened to the size of government? It went up. Every penny of that peace dividend was spent by government on new programs, productivity went down, the American people got poorer, and I am determined to see that we at least have a debate in the decade of the 1990's about giving the peace dividend by the mid-1990's back to the working men and women of America in lower taxes.

Having said that, one of the fears I have is that as I listened to the strategic assessment coming from the Defense Department's, intelligence agencies, they tell us consistently that the Soviet strategic threat is growing every day. On my two visits to the Soviet Union last year, no one made any secret about the fact that their strategic modernization is forging ahead full-blast, and yet I continue to hear people in Congress talk about responding to a lessened conventional threat by cutting rail garrison MX, by cutting the B-2, and by savaging SDI. Does this concern you? And why is this message not getting through, or is it being drowned out by the politics of conventional forces versus strategic forces?

General Powell. I agree with everything you said, Senator Gramm. As I mentioned earlier, in all of the conversations that I have had with Soviet officials, I have not heard one of them suggest that they are planning to bring the concept of Perestroika to their strategic forces. They have already decided what their strategic forces should look like in a post-START environment. They are heading toward that force structure. They are modifying their ICBM, the SS-18 MOD-5 to make it more modern and ready for a post-START environment, they continue to put out DELTA-4 submarines and they are well along in their SS-25 road-mobile system and the SS-24 rail-mobile system.

There is a START Treaty out there that we are all working toward. The JCS said they could live with that START Treaty if we had the strategic modernization program that we have been working on for these many, many years, and I think this is not the time to abandon that strategic modernization program. We should to go forward with the elements that the Congress approved last year, and which the President has again supported this year.

Senator Gramm. Let me respond by asking two brief questions related to that. First of all, as I look at your program, with the B-2, with the rail garrison MX, with TRIDENT and with D-5, this is not a buildup in nuclear weaponry because we are pulling down the B-52, the Minuteman-II, the Poseidon boats. It is really a modernization program which I see would be more important if we have fewer nuclear weapons, it is vital that they be more effective in providing deterrence, and that they be less vulnerable. Is that right or not?

General Powell. You are right, Senator, it is a modernization of our TRIAD, so as we go into this decade and into the next century we will have modern systems to match Soviet modern systems.

Senator Gramm. Now, let me ask you about conventional forces. Our Chairman talked about building a platform every 20 years and raised the question about why we are talking about these new platforms. As I look at our current platforms, the F-14, the F-15, the F-16, the A-6, the A-7, the A-10, and the M-1 tank, all those platforms are about 20 years old. In fact, the average may be higher than 20 years old. Even with conventional weapons reduction, is it not vitally important that we continue with modernization?

General Powell. Absolutely, Senator. And to take the tank as an example, the M-1 is the finest tank in the world. We have been making it for a number of years, and it reflects technology that is approaching a generation old. What we have decided to do in this budget is to buy it out at the end of 1991, so that we can then look ahead to the future and see what the leap-ahead tank should look like, as opposed to just continuing to buy technology that is approaching essentially a generation old.

So, I think what we have tried to do in this budget submission, what the chairman had suggested, is buy out those systems that are at least 20 years old from the time we first thought of them and begin looking to the future. When we are through going through this transformation process, we have to have the very best systems that American technology can produce to put in the hands of the soldiers, sailors, airmen and marines whom we may send into combat with those systems.

Senator GRAMM. And you see the ATA and the ATF as being a vital part of that?

General POWELL. Yes, sir, I do.

Senator GRAMM. Thank you, Mr. Chairman.

Chairman SASSER. Thank you, Senator Gramm.

Senator Robb?

Senator ROBB. Thank you, Mr. Chairman.

Let me begin, Secretary Cheney and General Powell, by commending both of you, as I have done both privately and publicly, on the recent operations in Panama. I had an opportunity, as both of you did, to view that situation first-hand, and as one who had some concerns about the coordination in particular and other aspects of the Granada operation, although I was supportive of it, and as one who had some concerns about what appeared to be our response in the aftermath of the failed coup that the PDF began on October 3, I thought that most of the concerns that had been raised by others and had been expressed in a variety of different fora had been clearly addressed and the operation of our forces in that particular instance I think gives us a sense of reassurance about our ability to fulfill the missions, particularly in that area with the Special Operations Forces and others, and as one which is identified with a particular branch of the service, I take tremendous pride in being able to say that I thought all of the services and the coordination were superb and it is as close to perfection in an operation involving force entry at night of over 20,000 forces as I think we are likely to get to, so I just want to reiterate that publicly.

Secretary CHENEY. Senator, if I might, just in response, one of the things that needs to be said about the Panama operation—two points, I guess—first of all, that the revisions of the structure within the way we do business in the Pentagon that were engendered by the Goldwater-Nichols act passed by the Congress had a lot to do with it, frankly. I was not that big an advocate, although I supported it when I was a member of Congress. But now as Secretary I watch the way the system functions, especially given the enhanced role that the Chairman of the Joint Chiefs now has, it clearly was a very sound and solid piece of legislation.

The other point I would make is that our ability to carry out that operation was directly the result of the effort made in years past by our predecessors to build and equip the quality force that did, in fact, undertake the Panama operation.

Senator ROBB. Thank you. As a matter of fact, I have also suggested that, as one who had reservations about the all-volunteer concept and one who had maintained my own commitment to the fact that everyone ought to participate, as an obligation of citizenship, in some form of draft, that this is the best evidence I have seen yet, that if you can get that kind of performance under that concept, although I have not abandoned my philosophical commitment to a broader concept of service, that you get a certain result that I think is worth considering and pondering as we look at the kind of performance we expect.

Let me move on, however, to a couple of matters. Let me just say that, clearly, I have been committed to the peace through strength concept that you reiterated and think that the fact that we have not had the major conflict, particularly between the super powers, in the last 40-plus years is a direct result of our readiness and our credibility in maintaining our posture, and indeed I was one that was very much concerned about the hollow force, the hollow army, hollow all of the services during the period of time that our ability to respond was a matter of concern.

Let me now, however, suggest that the situation, as has been noted in many other instances, has changed dramatically. And notwithstanding the reassurance that we have in other areas, it seems to me that we have to be prepared to change as well.

Secretary Schlesinger, apparently in testimony before the Armed Services Committee, presented testimony that was reprinted in part over the weekend in The Washington Post in a brief op-ed piece and made several points that seemed to require some sort of a response in terms of how we project what we are going to do, what our priorities are, whether or not we ought to be concerned about indeed taking the MX and making it rail-mobile, whether or not we ought to be proceeding with the Midgetman in this particular case, how valuable the B-2 is in terms of our future mission, et cetera, particularly in the allocation of dollars that are not as abundant as we would like them to be perhaps in this area.

Secondly, the concept of setting a floor on the U.S. forces in NATO, whether it is 195,000 in Central Europe or 225,000 overall, just a word or two from either one of you about how we arrive at those numbers and what kind of a concept that we envision as our role in a diminished NATO, whatever our response to the burden-sharing question is—clearly, things are going to move rapidly, things are going to happen today and tomorrow that could have a fairly significant impact on decisions that we make—comments generally on a philosophical basis about whether or not we ought to be moving in the direction that Secretary Schlesinger suggested and how do we arrive at the 225,000 number or the 195,000 number.

Secretary CHENEY. Let me touch just briefly on the strategic programs and ask the Chairman to comment on the troop levels.

The point we have tried to make is that while we do indeed see changing world circumstances, and we try to respond to them in the President's budget for 1991, and in our longer-range thinking, the one place where we do not see a significant change at all has to do with strategic systems.

Having come forward just a year ago when the President came to office, remember, we did a fairly massive strategic review. We looked at all of our strategic programs, and it was out of that process that we decided to go forward with the two-missile program. In part, that was a response to congressional interest. There was a general feeling, I believe, last year that we could have zero missiles or we could have two, but we could not have just one. We got into a big fight over in the other body over that issue, and ultimately

Congress decided to accept the President's recommendation and go with both.

On the B-2, the number we have in the 1991 budget was basically part of the conference agreement last November. We think there is a requirement to continue with the modernization of the strategic programs and that is the one thing that has not really changed significantly.

The troop commitment in Europe, from a political standpoint is important in order to maintain a U.S. presence there in NATO on the ground as long as our allies want us there. We are prepared to look at ways to have them accept more of the burden, relatively speaking. I think that, given the period of instability that is immediately ahead, given the ferment and change that we have seen in 1989, there is a need for some stabilizing force in Europe at this point and that is NATO and the U.S. commitment is the heart of that commitment.

While we can contemplate long-term changes, draw-downs in connection with CFE, I think maintaining a presence is very important. The number basically was decided for military reasons.

General **Powell**. Once the President made the decision that we should lower the number, Senator Robb, he asked our military view, in consultation with General Galvin, and we came up with that particular number. It was not just pulled out of the air. General Galvin consulted with his military component commanders. We have to remember that keeping a presence there is not enough, the presence has to have a purpose, it has to support a strategy. Recognizing that we were still supporting an alliance strategy of forward deployments and flexible response as contained in NATO Documents 14/3 and many others, and we had a war plan, we went down to a number where we would still be able to execute existing alliance strategy and that allowed us to keep one corps in Europe, with two divisions, with the air defense infrastructure that went with that, with the logistics infrastructure, with the intelligence and communications infrastructure that would go with the ability to reinforce that forward-deployed single corps, if necessary. When he took a look at it, he came back in and said I can do that at 195,000, with 225,000 for the overall European ceiling.

Dr. Schlesinger and others like him are saying, well, we should plan now for something more. But on what planning assumptions would you like us to do that? Right now, we are in a rapidly changing situation. We need to get the CFE Treaty completed and negotiated. We have an existing alliance strategy, and the number which we believe supports the need for showing flexibility in movement, which supports an existing strategy, and which is consistent with the arms control process at this moment was determined to be 195,000/225,000. I think it is a good number and I think it is where we ought to stay until the situation becomes clearer.

Senator **Robb**. Thank you.

Chairman **Sasser**. Senator Rudman?

Senator **Rudman**. Thank you, Mr. Chairman.

Let me just add to the words of praise for both of you for the job you are doing. I just do not understand how anyone who has read your budget documents can possibly accuse DOD of not starting to respond to changes in the world. Frankly the only way people truly respond around here is when bases are closed in their own backyard, which is not unusual for the Congress. This is a major reappraisal and reshuffling, and yet you are remaining strong in your strategic priorities.

I have just come back, as the Secretary knows, from the Wehrkunde Conference in Munich over the weekend. The Secretary was going to be with us, as Secretaries of Defense always have been, and could not, for good reason. General Scowcroft was with us, in a small delegation, meeting with all the Europeans. I just want to say, Mr. Secretary and Mr. Chairman, that if there is one thing that came out of that conference, it certainly supports your position on strategic systems.

I fail to understand the debate as to whether or not we ought to modernize. The debate may be as to what components ought to be modernized and in what numbers, but the strong feeling I got from the weekend in Munich from European defense ministers, parliamentarians, and foreign secretaries was very simple: that with the raised level of instability in the Soviet Union, the strategic force becomes even more important. I wonder if you would like to comment on that, because that is something that you have not talked about this morning—but with these Soviet republics starting to assert independence, with Soviet citizens carrying signs in Red Square saying, "Remember what they did to the Romanian leaders," there is instability in that country. History ought to tell us that when you have that kind of instability, you do not drop your guard, particularly strategically, and that has got to be part of your planning. I would like you to talk about it for a moment and then, briefly, I would like to talk about conventional forces.

Secretary CHENEY. Senator, I agree wholeheartedly with the notion that it would be very risky business for us to build a national security strategy at this point radically different from the past, based upon the assumption that fate will treat the current Soviet leadership kindly. We do not know what is going to happen inside the Soviet Union. And while the President has made it clear that we welcome the changes Mr. Gorbachev has brought about, the fact of the matter is we have little reason at this point to make hard and fast predictions about what will happen there next week or next month or next year. We have to deal not only with the political instability that is represented there, and while we welcome the stated intentions of improved relations, we still have to deal with the reality of Soviet military capability and the fact that it may be wielded at some point in the future, to one who does not have the same set of attitudes and policies that Mr. Gorbachev has displayed towards the West in recent months.

Senator RUDMAN. Let me just add to that that some of the conversations, certainly private and some public, over the weekend centered on the fact that the two Germanys are going to be reunited—it is only a question of when, not if—and interestingly enough, much talk about them now continuing their alliance with NATO, which I find a remarkable concept, but evidently not unrealistic.

With the Baltic states, which of course were acquired in the Soviet-German 1939 pact, maybe becoming independent, the Soviet Union becomes even more insecure and more paranoid about what people will do to it. The one thing that they will do is to continue to modernize strategic forces.

As a matter of fact, is there not evidence that all of their planning for even the next stage of strategic modernization is now going on in the Soviet Union? Strategic forces I am talking about.

Secretary **Cheney**. That is correct. We already see evidence of systems being developed beyond the modern ones, the very modern ones they are fielding right now.

Senator **Rudman**. Well, I hope if we debate this on the floor, it is an informed debate, because although I certainly agree that there are many things we ought to reduce spending on—whether you like the B-2 or the rail-mobile and Midgetman, that is an argument where reasonable people can disagree—but it seems to me that we cannot lessen our resolve to strategic modernization. In fact, there is a strong case to be made that we ought to increase it, in light of the present circumstances in the Soviet Union.

Finally, on troops in Europe, in NATO, a lot of revisionist history is being stated at Munich this weekend. People were referring to NATO as a political alliance. Of course, it was but it was a political alliance for a single military purpose, to defend Western Europe.

Mr. Secretary, since we spend about $100 billion, conservatively, on our NATO commitment, that is a third of our defense budget—some people want to say 40 percent, I think that is high—if you take that $100 billion, the real money to save in this budget could be in reducing those strengths. Under what circumstances of stability in Eastern Europe, since you now refer to a "remote Warsaw threat," could we reduce troops, substantially below the President's floor of 195,000 in Central Europe?

Secretary **Cheney**. Well, that is——

Senator **Rudman**. Your own personal opinion, Mr. Secretary.

Secretary **Cheney**. It is difficult to separate my personal opinion from what I am going to have to account for when I go home. [Laughter.]

We can speculate at this point that if you can take all of the Soviet troops out of Eastern Europe, if you have democratically elected, non-communist regimes in Eastern Europe, you have got——

Senator **Rudman**. That is a good hypothetical.

Secretary **Cheney** [continuing]. And you have a peaceful, orderly sort of transition to a more stable Eastern Europe than we have today, and that transition may well not be that peaceful and orderly. I mean, the easy part may have been toppling the old Communist regimes, but the hard part might be trying to build democracies and successful economies on the rubble that is left. They have had over 40 years, the Communist rulers in those countries, to do an awful lot of damage. Some will do better than others, but they clearly were in here for a period of time, I think for the foreseeable future, where we are going to have a requirement for NATO, a requirement for U.S. presence in NATO, and that that is going to be sort of the cornerstone, if you will, of whatever new security arrangements are worked out in Europe. It will be the foundation of stability upon which we build political and economic relationships in the future. For that reason, it is important that we have an understanding here that we do, in fact, want to continue the commitment, at lower levels, and that our allies understand that we are there to stay as long as they want us there, and we are going to continue to provide leadership for the free world.

The alternative, of course, is to have somebody else do it and I cannot think of anybody else I would rather have do it.

Senator RUDMAN. Thank you, Mr. Secretary. I would just finish with a brief comment, Mr. Chairman. One of the concerns strongly stated by many of the NATO allies is, with a unification of Germany and a combined population of 70 to 80 million people—a strong power in Central Europe—there is all the more reason to keep them under the NATO umbrella, for obvious reasons of history that nobody can ignore.

Thank you.

Chairman SASSER. Senator Johnston?

Senator JOHNSTON. Thank you, Mr. Chairman.

Mr. Secretary and General Powell, I think we are very fortunate as a country to have you two in your positions of responsibility at this very important time in history. That does not mean that we in Congress will agree with everything you say. I think you have already gotten a picture of that.

I think it is most important that we reason together with reasonable people, which you are, at this time, because it is very easy I think for us to overdo what we need to do, which is to respond and to produce this peace dividend. But, unfortunately, I think most Members of Congress want their peace dividend and want it now, want it in greater quantity and want it sooner than it is possible to get.

Now, having said that, former Secretary Schlesinger said we should plan radically to scale back our forces in Europe and the time is now. Now, you have spoken about why we need 195,000 in Europe. I would like for you to speak to the mechanics of if Congress said that 195,000 is not a floor but is a ceiling and it is a ceiling this year or 150,000 or any other figure. If we put a ceiling on that this year, would you speak to the mechanics of how you would carry that out, what the difficulties would be and how long it would take you to do it?

Secretary CHENEY. Well, the first problem arises, Senator, in terms of whether or not that ceiling would be imposed without us having reached an agreement on the CFE.

Senator JOHNSTON. I am assuming that.

Secretary CHENEY. We clearly would want, have argued and urged policies in the direction of the President that we do not take troops out of Europe until we have an agreement signed, sealed and delivered on CFE, so we get the Soviet reductions as well as United States reductions.

Secondly, there is work that needs to be done within the alliance. Once you begin force reductions of the magnitude that is embodied even in the President's proposal, we are in a position where we have to rethink the way we are deployed, our notion of forward-defense, right up on the border, the inter-German border, how we defend in a situation where we no longer have the kinds of considerations we have had in the past with the Soviet divisions just over the GDR. How fast the Soviets get out would become a problem as well.

In terms of trying to manage the drawdown on this side, to the extent that what we are talking about is deactivating units, there is a pace that we want to go at that is governed as much as anything by the need to have sound personnel management practices. Given the fact that we have an all-volunteer force that the desire of people to serve and provide that kind of quality force is a very fragile and——

Senator JOHNSTON. Well, what problems would it give you if we said your end-strength this year must be 195,000 in Europe?

Secretary CHENEY. If you cut it too rapidly, with the understanding that we have to withdraw close to 100,000 people out of the force right away, all of a sudden we run into real problems just in terms of managing the force from the standpoint of personnel. What do we do with senior NCO's who have 8 or 12 years of service? Are we going to put them out on the street? Are we going to give them an early-out? How do we balance the force and take it down in an orderly fashion so that we are fair to the people who stay in the force. That gets to be an important consideration.

Senator JOHNSTON. I wonder, Mr. Secretary, if you could give us in writing a detail of the difficulties there, the problems that it would produce, because I would expect that is the way that the Congress would tend to respond, by putting end-strengths.

Secretary CHENEY. I would be happy to do that. The Chairman might like to say a word on that.

General POWELL. It would be very disruptive, as I assume you would also take the money away. Obviously we would have to force these people and the people we would have to get out between now and the end of fiscal year 1991 all have contracts that probably take them beyond 1991. We would need extraordinary authority to begin breaking service contracts with volunteers, RIF-ing officers, and some 50-plus installations would have to be closed in Europe and turned over to the Federal Republic of Germany. It would be a massive effort to get all that done in roughly 18 or so or 20 or so months you would give us to do it.

Senator JOHNSTON. I think it would be very helpful to us to have a detail of what those problems are, so when we make that judgment.

[The following was subsequently supplied for the record by the Department of defense:]

The Department continues to strongly oppose the imposition by statute of a U.S. armed forces end-strength for Europe. The geographic disposition of the U.S. armed forces and the timing of their movements are matters properly left to the President as Commander-in-Chief of the armed forces.

Moreover, when the United States is engaged in discussions with the Soviet Union aimed at achieving reductions of Conventional Forces in Europe (CFE), it is particularly important that U.S. negotiating flexibility not be undermined. The timing of mutal reductions in Europe is a crucial element of the CFE negotiations.

Finally, as a member of the NATO alliance, the United States should continue to consult with NATO allies on matters of crucial importance to our mutual security, such as the timing of reductions in the size of the U.S. military presence in Europe. Accordingly, unilateral U.S. action, such as enactment of a decreased statutory limitation on the size of U.S. forces in Europe, would be inappropriate.

Plans for reductions in the size of the U.S. presence in Europe must be integrated carefully into the Department's plans for the overall reduction in the size of the armed forces. Removing troops from Europe is not a simple matter of issuing redeployment orders. It requires a great deal of advance planning for the associated vast logistical efforts, such as base closure and consolidation, and transportation of vast amounts of equipment and numbers of personnel. The Department must give particular priority to careful personnel planning, to ensure that reductions in the size of the armed forces are achieved with the least possible disruption of the lives of the members of the armed forces and their families.

Senator JOHNSTON. Now, Mr. Secretary, we are some $20 billion into the SDI program now. There are various purposes for which the SDI program could be employed—the astrodome, protection of people, cities, protection of missile sites, command and control, accidental launch. Being some $20 billion in, do we now have a purpose for SDI and, if so, what is it?

Secretary CHENEY. Senator, I would argue that we do indeed have a purpose for SDI. We want to maintain as robust a program as possible, with a view not only to a very active R&D program, but ultimately to provide the President with the opportunity to make a decision to deploy as soon as possible.

Senator JOHNSTON. What I mean is do we have a purpose, though? I know R&D is——

Secretary CHENEY. I would argue that the purpose is to deal with the very real threat that the Soviet strategic forces still present to the United States. That has not gone away, it continues to grow more robust and capable as they modernize their forces. Today, we have absolutely no defenses of any kind against a ballistic missile attack on the United States.

In addition, one of the disturbing trends we see out there is the development of more sophisticated weapons in the hands of third-world nations, ballistic missile capability and weapons of mass destruction are there as well. So, I think if you look down the road 10 or 15 years, my expectation, is that the Soviets are going to have very modern strategic forces. There will be an expansion of the threat, if you will, to other nations around the world and that from the standpoint of the United States, it is important for us to continue to work and ultimately deploy strategic defenses to deal with that threat. Also to add to our deterrent capability and, for example——

Senator JOHNSTON. But is it fair to say——

Secretary CHENEY [continuing]. To meet the Phase I requirement established by the Chiefs.

Senator JOHNSTON. Is it fair to say that we have not yet made the choice as to what kind of threat we would employ SDI against, as opposed to accidental launch or astrodome or what-not?

Secretary CHENEY. Well, I would argue, Senator that what we are planning on is specifically a system that would satisfy that so-called Phase I requirement of the Joint Chiefs that is, to be able to take out a certain percent of the first wave of a Soviet launch. A capability of that magnitude which would require both ground-based and space-based defenses, would add very significantly to our deterrent capability and reduce significantly the likelihood that the Soviets would ever launch such a strike. And nothing that has happened in the last 6 months leads me to believe that we should not go forward with that program.

Senator JOHNSTON. And we have not yet chosen an architecture for SDI, have we?

Secretary CHENEY. Well, we are clearly looking at various systems. Some are farther along in terms of development than others.

We are dealing with both the shorter-range technologies, and the kinetic energy weapons. We are also doing a lot with respect to our directed energy research. I just spent a day at Los Alamos recently and, before that, at Lawrence Livermore Labs. The President will visit Lawrence Livermore Labs this week, as well. Those programs are continuing, and they have been enormously successful in terms of the progress we are making. I really think it is important for us to continue SDI in as robust a manner as possible.

Senator JOHNSTON. Thank you.

Chairman SASSER. Thank you, Senator Johnston.

Senator Bond?

Senator BOND. Thank you, Mr. Chairman.

If we achieve the agreed upon mutual limitations, we will be able to recognize more savings in the future. We know that the proposal is not painless, it is not without costs. My State has some costs in proposed base closings. I hope we can all view them from the standpoint of military necessity and leave the pork barrel and the politics out of it.

To follow on the question about SDI, last year, as you may recall, 45 Senators went on record in support of deploying an accidental launch protection system. You yourself have referred to the proliferation of ballistic missiles and chemical and biological weapons. I would urge you and ask you to consider whether developing the ALPS system would not give us the opportunity, not only to protect against an accidental launch, a terrorist launch, a Qadhafi or Khomenei launch, but also give us operational experience with a strategic defense system? Does this not make sense as a first step?

Secretary CHENEY. Senator, we are, of course, looking at all facets of the program right now. There is a review of SDI under way within the department, conducted by Ambassador Cooper who, up until recently, was our negotiator in Geneva in the defense and space talks. I just had a session with him about a week ago and received a status report on the efforts of that study.

As a general proposition, though, I think the arguments for SDI are such that we ought to go forward with as robust a program as possible and not limit ourselves to dealing just with the kinds of threat you mention. Clearly, I think that is a growing concern. ALPS does have some attractiveness to it. From my perspective, I am interested in moving it forward across the broad spectrum of capabilities as rapidly as possible.

Senator BOND. Mr. Secretary, as we move towards a smaller, more cost efficient defense, what kind of role do you see for the National Guard and the Reserve? And as active forces are reduced, do you have plans to transfer some of the newer equipment to Guard and Reserve units which will be assuming some of these roles, making sure that they remain capable?

Secretary CHENEY. Senator, we have a major study under way within the department that was directed by the Congress in the last authorization bill on our total force policy concept. I just kicked off that study last week, and the effort there is to review all facets of our activities in that regard. We have a mandate to have the study finalized by December of this year. We hope to complete it much sooner than that so we can feed it into our 1992–97 planning process and make it a part of next year's budget.

The Guard and Reserve have been very important and they will continue to be important, but they are not without their problems. We do not want to take down just active duty forces. Given our total force concept within the Army, for example, it is important if we are going to take out combat units, to take out some of the combat service support units. Some of those are in the Guard and Reserve and we want to reduce them in a balanced fashion, so when we get through we still have a balanced force left.

One of the other things I find that I did not appreciate until I became Secretary is, there is an enormous difference in terms of the extent to which the Guard and Reserve units can contribute, given the different missions that we have in the different services. Some missions they perform very well. Some of our air units, for example, Air National Guard units, we were able to use in Panama.

In other cases, it is difficult to use Reserve units. For example, with respect to the Navy, in terms of ship deployment, we cannot deploy for 6 months a naval asset that is manned with the Reservists. So we run into those kinds of difficulties. We have had some problems as well in terms of what units around the country do well.

The Chairman might like to say a word or two, given his prior role as Commander of Forces Command before he became Chairman, on how we manage that total force.

General POWELL. I certainly agree with the Secretary that the role played by the National Guard and Reserves will be even more important in the future, and I think we can continue our efforts to make sure they have the most modern equipment possible, particularly as we trim down its size. But we will have to look at all of the missions they perform. For the same reasons that it is now suggested we can take down the size of our active force, those same reasons apply to the Reserves, so we will have to look at it very carefully.

Senator BOND. Mr. Secretary, current budget plans call for ending production of the F-15E in fiscal year 1991. Earlier you said the F-15E is a good aircraft, we have got 200 of them, we do not need any more. Given the questions that have been raised about the advanced tactical fighter and the ability of Congress to continue to provide the money to go forward with that, is there not a possibility that current budget pressures would further delay that ATF program? Does it not make sense to keep the F-15 line open so, if necessary, we can move to improve generations of the F-15? Given what we have may be enough, if all of a sudden it is not 5, 10 or more years before we give a new fighter, doesn't it make sense to keep open the line that can give you the best airplane, with whatever modifications become technologically feasible?

Secretary CHENEY. Senator, that is one of the toughest questions I have to wrestle with or had to wrestle with, and it has been true not only of the F-15, but also the F-14, for example. We are down now to one active line producing aircraft for the Navy and one active line producing aircraft for the Air Force in our budget, if Congress approved our recommendation to terminate the F-15 production line. We would still have the F-16 and the F-18, but that is it.

I would like to have a more robust procurement program out there, so we could keep all of these other lines in operation. But the problem is, given the budget constraints, we have to cut some place, and in my mind it is sort of a choice between terminating existing procurement, not buying more of a particular system that we think we have already have enough in inventory, and putting our emphasis on looking at that next generation fighter. If I could do both, it would be nice, but I did not see how I could do both, given the budget. Even with the decisions we made, we are still faced with the problem that we have not yet been able to get the funding profile, given the bow wave the chairman had in his chart up here, given that bow wave in the out-years, we don't have all that fits into the program yet and that is why we are reviewing now the ATA and the ATF.

Senator BOND. That is a tough call. Thank you.

Chairman SASSER. Thank you, Senator Bond.

Senator Simon?

Senator SIMON. Thank you, Mr. Chairman.

First, I cannot remember a meeting of this committee or any committee where everyone begins each comment by saying they have great confidence in you, Mr. Secretary, and you, General. I think it is a tribute to both of you that there really is a genuine feeling of confidence in both of you.

Let me make just a few brief comments and then a question. Your chart here that has interest, there should be a little word ahead of that and that is "net" interest. The real figure is gross interest. Next year, this next fiscal year, gross interest may surpass the total defense budget. The following fiscal year, 1992, it certainly will, and it is one of the reasons we are going to have to grapple with some of the problems that we have.

Senator Riegle asked a question about the shifting of personnel. General Powell, in response, you said we would have to close some bases over here and build new bases here. There is one alternative for at least some of them and that is do not close some of the bases here. Now, you call it pork or whatever you want, but it seems to me it is irrational to have Chanute Air Force Base and that community just devastated, while we have personnel overseas, that I think it is very questionable whether we should have them. And while it may not make a great dollar difference in the defense budget, in the trade deficit it does, and one of the things that we have to consider as a Congress, and I think the Defense Department also has to consider, is the bigger picture, not simply the defense dollars.

I have been doing a little talking to my colleagues on both sides, sounding out what realistically could we do on the deficit and on shifting some of the priorities. As of right now, I am thinking about an amendment that would reduce the defense Function 050 by about 3 percent, taking half of that and moving it to reduce the deficit, taking the other half and dividing it, one-fourth into education and one-fourth into health care. I think that would meet some long-range needs as well as some immediate needs that we have in our society.

To do that, obviously you cannot just deal with weapons system, you have to deal in the personnel question. I agree with Senator

Rudman, we have to modernize, but we are going to have to make some choices. I voted against the B-1 and voted for the B-2, but now we have gone ahead with the B-1, I am not sure we need that B-2. I am not sure that Richard Perle is not correct, we ought to drop the rail MX garrison thing.

But when you get to the kind of numbers that I am talking about, a 3-percent reduction, you clearly have to move on personnel. I guess my question is, do we really need 2.1 million people in the armed forces today, and is there a way—in response to Senator Johnston's question, you mentioned the disruption if you do not do it in a reasonable way—is there a rational, reasonable way where we could pull that down, say—I am just picking a figure out of the hat—to 1.8 million, put a little more emphasis in the Guard and Reserves, and still maintain a strong defense that is responsive to a dramatically different world than it was just 1 year ago.

Now, that is a very long, complicated lecture I have given you, but anyway——

Secretary CHENEY. Thank you, Senator.

If you look at what we have recommended this year, we are coming down, by our measures—and I recognize that you have to be careful which numbers and sets we are using here—from 1990 to 1991 in real terms. We believe the budget we are submitting and recommending is a 2.6-percent reduction, after we take inflation into account. So, you are talking about another 3 percent on top of that?

Senator SIMON. That is correct.

Secretary CHENEY. The problem we run into is—you are right in the sense that procurement money spends out very slowly, to the extent that we are governed by the outlay requirements, in the Gramm-Rudman statute, the kinds of cuts that get imposed on us create havoc in terms of trying to manage the department, because they do come out of personnel which spends out almost on a one-for-one basis, or they come out of O&M or operations and maintenance accounts, and the big-ticket items that are involved or personnel, but the big-ticket items that people talk about, in terms of submarines, aircraft systems and so forth do not offer up the kinds of immediate savings you are talking about here.

We are looking at a very significant reduction in the total personnel in the department over the next 5 years. If you take the notional changes we are talking about, some five divisions out of the Army, five wings out of the Air Force, and so forth, we are talking about a reduction of 300,000 people, better than 300,000 uniformed and military personnel, but it is over a 5-year period of time. That gives us the opportunity to build down steadily, to treat people right, to do some of it through attrition, to minimize the extent to which we create absolute churning and turmoil in the workforce, and it lets us treat our people properly.

If we had to do that all at once the first year, then we are looking at a situation in which we really do create havoc. We are then in this kind of precipitous free-fall in the force that I think is very destructive of morale, does force us to violate the obligations we have undertaken with those people who have signed contracts to serve out a period of time, and we end up doing crazy things to your officer corps and our NCO force as well. We do not end up with a balanced force when we get through and are driven by that need to get those outlay savings in a particular year.

Senator **Simon**. Just one brief comment. When you talk about 300,000, you are talking about a 14-percent cut over a 5-year period. So, if you are talking about 3 percent in 1 year, you are really moving down the same road, it seems to me.

Secretary **Cheney**. From where we were a year ago, through 1991, we are taking 91,000 uniformed personnel down, as is. That is separate and apart. There is already a civilian hiring freeze on departmentwide that will run through the end of this fiscal year that will result in perhaps as many as 55,000 or 60,000 additional civilians not being in the force at the end of that period of time. The kinds of reductions we are recommending in the 1991 budget, two divisions out of the Army, et cetera, will result in further significant reductions. So, we are on a downward path. I think the question is how fast can we reduce and still maintain the basic integrity and quality of the force.

Senator **Simon**. Thank you.

Chairman **Sasser**. Thank you, Senator Simon.

I would say to our witnesses that you have been steady here now for 2 hours and 40 minutes. Would you like a brief respite? We have finished our first round here.

Secretary **Cheney**. Mr. Chairman, I have a 2 o'clock meeting with a foreign defense minister that I would like to make if possible. So, I would just as soon go straight through.

Chairman **Sasser**. I am sure that would be possible.

How about you, General?

General **Powell**. I am fine, sir.

Chairman **Sasser**. Good. Well, we have a new reason to admire these two gentlemen here.

Secretary **Cheney**. This is a test for the General.

General **Powell**. We go through this every time.

Senator **Domenici**. You do not have to agree with him on everything.

General **Powell**. On this one, I do. [Laughter.]

Chairman **Sasser**. Mr. Secretary, let me get into—we have been talking here about sort of a grand strategy and looking at the whole defense budget from sort of a macro level. Let me get down to some nuts and bolts here now.

Our majority staff here on the Senate Budget Committee has done a study of what has occurred with spare parts inventories in the Pentagon. And this is not a new subject, it has been kicking around here now for a considerable period of time. It began back in the early eighties with the Carlucci report and then continued on in 1986 with Mr. Packard's report, and now I think you have instituted your own initiatives out there.

We concluded after this study that there is over $100 billion worth of various spare parts on inventory under the control of the Department of Defense which has been purchased. Over the past few years, we have appropriated about $700 million for additional warehousing to house all of this inventory. Now, we are advised that about $30 billion of this inventory, according to our study, is excessive.

Yesterday, I read in the newspaper that the Department of Defense spokesmen are agreeing that $8 or $9 billion of the $30 billion that we say is excessive is indeed an over-supply, and we learn that $1.8 billion in spare parts are going ahead, you are going to go ahead and purchase those, even though the Inspector General indicated back in November 1989 that these parts should not be purchased, and we received information from our staff that this past Friday they were informed by the Army that there are currently 9,617 separate items on order. Now, these are separate categories of items, as I understand it, which would be in excess of Army requirements.

My question to you, Mr. Secretary, is what specific initiatives are under way to solve these problems and when will they be implemented?

Secretary CHENEY. Senator, one of the assignments the President gave me when he asked me to become Secretary of Defense was to see what we could do to improve the overall management of the Department and specifically to implement the Packard Commission reforms and recommendations. We have started that process.

We did an extensive review within the Department in the early months while I was there and completed last July a Defense Management Report. It laid out a basic program of action. The report was provided to your committee a couple of weeks ago—I guess it came to the Hill on January 29. We briefed the press on this generally on January 11 and provided more detail on January 29, the same day the budget came up. We gave the President an interim report recently, what we call—there is a copy of it here—the "Department of Defense Justification for Estimates for Defense Management Report Initiatives." Our report is an effort to deal with many of the problems that have been identified by prior studies by my predecessors and by your committee as well. I look forward to having the opportunity to study your report. It just arrived in the Department, so we have not had a chance to analyze it yet.

This is a very serious effort on our part to improve the overall management of the Department and it comes in several forms. The fact of the matter is that there are places where I think we have far too much overlapping responsibilities and jurisdictions. We lack clear-cut lines of authority in terms of how we manage the resources of the Department. We estimate the value of inventory on hand is about $103 billion—you said $100 billion, I do not quarrel with that at all.

There is a dispute over how much of it is excess, but a lot of that has to do with the way the system works. The system is fouled up, in the sense that if one is a good supply sergeant, in many cases, he wants to make certain he has the spare parts he needs when he needs them. If the system is not very efficient or if there is a long lead time between orderimg and actually receiving the supplies, what he will do is order enough so that he can rathole whatever extra he needs. So, if you go down to the division level, you will, in fact, find many excess spare parts down there. I think in many cases this is dealt with by some of the reforms that we have here, and let me just quickly, if I can, run through some of the efforts that are currently under way.

We made some major changes which will total some $39 billion in savings over the course of the next 5 years. That is just a start, and we think we will be able to do better. It includes initiatives to have the Army and the Air Force adopt a practice that has now become common in the Navy, in terms of how to deal with spare parts and repairable items. The Navy has worked it now since the early eighties, and it has reduced their overall demand for spares by about 20 percent. We are going to take the same system and have the Army and the Air Force use it, and we expect to get the same savings there.

We are shifting the incentives in terms of the management of the stock funds, so that the individual who is in the system will know exactly what it costs him up-front to order a part. It will not be a freebie for him to order it, he will have to pay for it out of his budget.

One of the issues that has been of interest—and I know was in the press reports citing your study—had to do with clothing and textiles. What we have, in effect, done is set a new policy that will reduce the total number of requirements that are out there. In turn, there has been an argument that there were some 126 separate sizes in clothing. All of that is being changed and modified as well.

We are moving in the direction of using commercial specifications and increased standardization to reduce the total number of clothing sizes. The clothing purchases have been out of control, in the sense that we have purchased far more than the services actually need and we are going to cut that by the tune of $80 million a year over each of the next 3 years.

I can go on and on, Mr. Chairman. We think there is opportunity to reduce the cost of civilian personnel services, to go with computer-aided logistics support. This, in effect, would allow suppliers providing major pieces of equipment and hardware to the department to transfer to us the digitized electronic format data, instead of these huge reams of paper we have used in the past. It will allow us to do a much better job of inventory control and knowing what systems we have to have, in terms of maintaining spare parts.

We want to develop a standard automated data processing system for the department. Right now, we spend about $9 billion a year on automated information systems. The services have different ones, and the central defense agencies like the Defense Logistics Agency has its own separate one. We think there is a lot of savings from consolidating there.

We want to streamline contract management. Right now, the administrative services for contracts are unique to each service. That is going to be changed and pulled together in a coherent fashion.

In addition to all of this which we now have been able, we think, to nail down, some $39 billion in improvements, it is actually in the budget, we have taken the money out and we have identified the jobs to be changed and realignments.

We have studies ongoing in the following areas that are due to me by May 1 that will give us the material we need to be able to follow up in our next budget submission. Specifically, these have to do with consolidating management support operations within the department. Specifically, there are currently throughout DOD 33 separate supply depots operated by each of the three military departments and by the Defense Logistics Agency. They provide supplies to all elements of the service. We are going to explore consolidation into a single service or agency, which should provide significant savings.

In terms of inventory control points, as you mentioned, we have a $100 billion inventory and 20 separate activities called inventory control points. We have got the opportunity we think to consolidate there.

In terms of maintenance depots, the Army, Air Force, and Navy all operate separate maintenance functions for repair of ships, planes, tanks and other items of equipment. We are going to consolidate those.

We have over 1,000 data processing installations called information technology facilities. They all do software design, modification of systems, maintenance of systems, data processing, et cetera. We think we can consolidate those.

Chairman **Sasser**. If I can just interrupt you there, Mr. Secretary, my time is expired. Now, that is a fine management study and I commend you on it and congratulate you on it. But I would say to you that this is not the first management study that we have been presented with and, as Senator Grassley indicated in his opening statements, many times there is a disconnect or it appears there is a disconnect between the management survey and report and what actually happens down where the rubber meets the road. I am hopeful that this management report will be implemented.

We find that many times we run into the same procedures and certainly the same cast of characters in trying to run these matters down. And when they bubble to the surface, as they have over the past 10 years, it is an embarrassment to the Department of Defense, it is an embarrassment to those of us who appropriate the funds here, and we are simply going to have to deal with this thing in a more straightforward and tougher manner.

I suspect that in the final analysis you are going to have to institute some kind of incentives out there in the Department of Defense to encourage and reward people who come up with ways to save or to reduce inventories, and we are going to be in the soup again when we start demobilizing some of these divisions and start having to store all of their materials. We are simply out of warehouse space, I am advised.

I will leave it there. My time is expired and——

Secretary **Cheney**. Mr. Chairman, if I might, I would like to respond. This is a very important subject. I think it is a subject that ought to be the focus of further congressional hearings. This is a very serious effort. It is not just a study. There are $39 billion we have taken out of the defense budget over the next 5 years specifically related to these changes. I can identify for you 10,000 jobs in the Air Force Logistics Command that we have decided to eliminate as a result of this work. I can tell you which six bases are going to be closed or realigned in order to meet those goals and objectives. So this is a very specific plan and it, in fact, is now being implemented.

In addition to that, there are other kinds of problems I have, as Secretary. One of the problems I have, frankly, are the things I am required to do by legislation that I would rather not do. Things I have to buy that I do not want. When I was in Germany last fall visiting our troops I was being escorted through one of our facilities by an Army brigadier general who was showing me the tanks and the training areas and the housing areas of the troops. Over here on the side was a huge pile of anthracite coal. It is mined in the United States and shipped to Germany. We stack it over there and burn it over there, because Congress requires us to do it. It costs twice as much to satisfy the utility requirements at that base, using coal shipped from Pennsylvania, as it would to buy it from the local German economy. It is also high-sulfur coal, so the Germans are angry every time we buy it. We have about a 10-year supply of coal that we do not need. It costs us twice as much to use as if we pursued some other alternative.

The stories are legion. We have 27 Army ammunition plants, with 16 operating, and we only need about 7 in operation. There are a lot of things we can do to clean up and improve the management of the Pentagon. I am trying to do everything I can. I would say there is no magic bullet there, no one simple fix that is going to solve the problem. But the fact is that if we keep at it, if we implement it, if we go about it in terms of 3 yards and a cloud of dust, instead of looking for touchdown passes, we can get the job done.

One final point and then I will stop. We have a major effort under way to formulate a legislative package that we would like Congress to enact, which would allow us to do a much more efficient job of running the Pentagon. That package is now being drafted. We made the basic policy decisions to go into it. The legislative language is being prepared. OMB is working with us on it, and we will have that to submit shortly. At that time I would like to come back and ask Congress to make the changes in statutes that will make it easier for us to do what we need to do in terms of saving some of the money that I think can be saved.

Chairman SASSER. Any way that I can be of assistance to you in that endeavor, Mr. Secretary, I want to pledge my full cooperation to you and the Chairman of the Joint Chiefs today in that endeavor.

Senator Domenici?

Senator DOMENICI. Thank you, Mr. Chairman.

Mr. Secretary, let me just suggest that I think it is absolutely imperative that you do what you stated in your last remarks, that you inform the Congress every time Congress talks about issues that affect your ability to contract and run an operation. Your department has to take some of the blame. With this inventory problem, clearly there is plenty of blame to go around. But I think you have to continue to remind us whenever you find a problem we have built into some new statutory requirements. Next time this issue comes up, you ought to bring the charts along that show the management hoops you have to go through in order to accomplish your management of the Defense Department.

Also, I think it would be good just for people to know the dimension of the problem. It is my understanding that there is no agency around in the free world that comes anywhere close to the Defense Department, in terms of the number of contracts that they are required to review and execute annually. The last time I got a number, it was 13 million, Mr. Chairman, a year——

Secretary CHENEY. That is correct.

Senator DOMENICI [continuing]. Fifty thousand a day, roughly, day in and day out when you work, 50,000 contracts that have to be reviewed, hoops gone through and signatures put on them that is an absolutely monstrous job. It does not mean you should make a lot of mistakes, but clearly where there is redundancy and duplication of effort that causes problems and we ought to know about them.

In the meantime, I think every effort should be made, and I say to both of you, with reference to some of the accumulation of inventory that is now out on the table, to see that we do not have as much of that in the future, and that you do something to assure Congress that that will happen.

Having said that, I want to talk about two issues very quickly. One has to do with the nuclear deterrent national laboratories. I really believe it is imperative that the Defense Department be serious about the three nuclear deterrent laboratories. They have been the mainstay of America's nuclear deterrent science, engineering, health and safety for all these years since Los Alamos was founded by the Manhattan Project's scientist Oppenheimer.

These three laboratories statutorially full under the Department of Energy because of the Truman Doctrine that separated nuclear development from the Defense Department. However, I think it is imperative that the Defense Department understand their significant scientific capability as you, Mr. Secretary, talk about maintaining the cutting-edge science during the defense build-down of the future.

I hope you will consider those laboratories as part of the Defense Department for their utility in the future. I think it would be an absolute mistake not to have the Department of Defense evaluate them regularly for their capability, in terms of research and development and complex issues of the future, which hopefully will reduce activities in the world.

I do not expect any comment from you. I do hope, however, that you understand that we must not let these tremendous resources go unattended, in terms of their capability to maintain our technological and scientific cutting-edge activities.

Secretary CHENEY. They are enormously valuable assets, Senator. I had the privilege of visiting two of them just within the last couple of months, partly at your invitation, and certainly we will continue to view them in that light.

Senator DOMENICI. With reference to the strategic defense initiative program, I hope, Mr. Secretary, that you will take a look. Did you say recently that Mr. Cooper had the assignment?

Secretary CHENEY. Yes, sir, he is currently running a bottom-up study on the SDI program.

Senator DOMENICI. I think it is time, Mr. Secretary, considering the tremendous scientific achievements of that program, regardless of how it started—maybe it started with an overstatement of its capability by President Ronald Reagan—that the technological breakthroughs that have occurred in that program in 5 short years are looked at in terms of how they mesh with America's future strategic policies, rather than all by themselves as a defense mechanism. It seems to me, with the changing world, that they deserve to be meshed in an overall strategy of arms reduction and nuclear reduction. Maybe we have not looked at them in that way to this point.

I believe there are scientists around who would welcome the opportunity to talk about SDI in a new and different light as a part of a meshed program of nuclear deterrent and nuclear arms reduction as it occurs in the years to come.

Mr. Chairman, we recently visited one of those facilities, and one of the most startling things to see was the miniaturization potential of in America's science and physics. The Secretary saw a facility where a research piece of SDI 5 years ago was as big as one-third of this room. That same piece has now been reduced to the size of a water pump. In terms of science and technology, miniaturization is the wave of the future and, clearly, we are learning a great deal in that regard from these kinds of programs.

Thank you, Mr. Chairman.

Chairman SASSER. Thank you, Senator Domenici.

Senator Riegle?

Senator RIEGLE. Thank you, Mr. Chairman. I appreciate the chance to raise one more issue with our two witnesses this morning.

As you know, we have within the jurisdiction of the Banking Committee the Defense Production Act. We did a 1-year extension last year, but we need to go through those issues again this year. Senator Sasser, of course, serves with me on that committee, as do many other members of the Budget Committee, and we want to do a good job this year and really take a very careful look at how we think through the kind of basic economic substructure and manufacturing substructure that we need to have in this country for the long pull, and with exactly the same seriousness both of you bring to your present assignments in the aspects we have talked about today. I know that carries over as well to this business of how well are we doing here at home, in terms of our long-term economic strength and that moves to things like the health and well-being of our technological base, our manufacturing base, how modern is it, is it gaining strength, holding strength, eroding.

I think there is too much data that indicates that we are sliding backwards in a number of ways. I do not mean to just hang crepe when I say that, but there comes a point I think where our military strength and our economic strength can very well intersect and we cannot let one get too far out of tandem with the other or we will find ourselves with military missions and responsibilities and commitments that we may not have the economic capability to carry out fully, either just in terms of paying for them or even in producing them.

So, what I would like to do sometime soon, when you are through with this schedule of presentations that come at the beginning of the new budget cycle, I would like to sit down in an informal setting with some of the top people who have this interest and professional responsibility on the Banking Committee and discuss with you exactly how we capture this problem and think about our underlying manufacturing capability and our strategic economic capability in this country to sustain our responsibilities and commitments around the world.

I must say to you that, with reference to my earlier comments, there are a lot of things that are distressing in terms of what is happening in shrinkage in key areas of the industrial base, the high value-added areas. I do not know if you have been keeping track of the permanent job layoffs—not that that is the only measure—but when companies like IBM announce force reductions of 10,000 permanent employees, GE just announced 5,000, Boeing just announced a major reduction, all of the operating companies of the old Bell Telephone/AT&T complex are all making very substantial permanent reductions, these are signs of problems. Those are not just rationalizations to get operating efficiencies. There is a very dramatic tilt in the international global economic system and trading system that is causing a great number of those jobs to disappear, and as they go, the vitality of those economic entities also change and in an important way is diminished.

So, I think it is very important that we cross-connect our underlying long-term strategic economic strength and ability to produce with the requirement to make sure that those force levels that we are going to decide to maintain will have available American equipment, American technology in all manners and forms that are needed in whatever circumstances that arise in the future.

I must tell you, coming as I do from the manufacturing base of our country in terms of the Upper Midwest, every major corporate executive and high-level executive in those companies has a pressing and an immediate concern in this area. They all express an apprehension about a deterioration of underlying trendlines. Some of it gets talked about in terms of foreign companies coming in and buying certain assets and technology firms and so forth, but also being able to maintain the state of the art level.

I would just conclude by saying that last year—there are all these comparisons with Japan and you have had a little flavor of that comparison today—last year, the Japanese raised and invested in their private sector economy five times the amount of equity capital that we did. If we were to think about it in military terms—and I think economic strength, in fact, directly cross-connects to military strength now and in the future—it is a stunning differential.

It is so powerful that it would be as if the Russians were out-producing us in nuclear warheads 5-to-1, or tanks 5-to-1. The same thing is true with respect to capital equipment per-worker. They now have a capital investment per-worker dollar value twice on the average what we have for our people. That is part of the reason why our productivity is sliding backwards. In terms of research and development, they are spending twice what we are on a GNP basis, just in terms of research and development, to get to the new technologies and to move on out front.

I think these things all play back into our ability not just to have a modern defense establishment that can grow, if need be, and project American power around the world, not just in Panama but places further away, but also be able to pay for it, just to have the national income in sufficient amount to do that, plus all the other things that the Budget Committee has to do.

So, I will give you a call, but I would like to try to sit down and think through this question of how we redo the Defense Production Act in a way that looks at our long-term economic strength and positions us, General Powell and Secretary Cheney, to make sure that 5, 10, 12, 15 years from now we are going to be in an economic position to really carry out our responsibilities at that time. I would appreciate being able to work closely together on getting that done this year, maybe more thoroughly and completely than we thought about in the past.

Secretary **Cheney**. Senator, I would be happy to work with you on that project. It is a very important subject and I find, as we contemplate the prospects of shrinking the defense budgets and the difficulties that some of our suppliers already have encountered, there is no question it is a subject that needs to be addressed and that we need to spend a lot of time on, both in the executive and the Legislative Branch.

General **Powell**. Indeed, yes, sir.

Senator **Riegle**. Thank you, Mr. Chairman.

Chairman **Sasser**. Thank you, Senator Riegle.

Senator Grassley?

Senator **Grassley**. Mr. Secretary, I am right back where I was on round one. I want to thank you for the opportunity that you said you would give me to sit down and visit with you about it and I think I will take my time on round two to kind of give you an idea where I am coming from.

On page 6 of your Defense Management Review, you talk very clearly about program planning objectives that will be mandatory guidance to the service and defense agencies, and you talk about a rough 20-year roadmap of the modernization needs of investment plans of DOD, projecting the impact of the program planning objectives and additional modernization of replacement of major systems expected by military departments and defense agencies against realistic levels of future funding.

I think I am interested in—for instance, you mentioned about the four aircraft, how are we going to make choices of which four aircraft we will buy or whether they are affordable if we do not have the linkage to the PPO's or the national security objectives, and how will the services make choices if there is not some set of objectives from the top.

Now, these initiatives of the 20-year roadmaps and the PPO exercises are not even mentioned in here.

Secretary **Cheney**. That is correct. That is a separate document, Senator. What we have here is the report on the management changes that we have made within the department that feed into the $39 billion over the next 5 years. What you are referring to shows up more in the defense planning guidance, which is a separate document which goes out to the services with respect to their planning for the 1992–97 POM process right now.

Our PPO concept, in effect, involves me giving guidance to the services, specifying that certain things are given that is to say that they do not have any flexibility in terms of budgeting for those, they have to include certain priority items within the budget. We have had a debate within the department as to what percentage of total funding that ought to account for. There have been times in the past when the exercise became meaningless because they were directed to spend 150 percent of their funds. I mean, it did not give them any ability to discriminate. We have tried to cut back on that and we are giving them the guidance. That guidance is going out to the services now in connection with their longer-term planning process, but it would not be embodied in this so much as it would be in the defense planning guidance that they are working on now.

Senator GRASSLEY. Well, in the staff briefing that was given by your people to the staff of the Budget Committee, there was no objectives or no reference to the 20-year roadmaps at that briefing.

Secretary CHENEY. Again, that would be part of the budget and the planning exercise that is now underway on a different track in connection with the 1992–97 POM's, for example. That is to prepare the budget and to take a long-term look at our requirements and at the basic fundamental questions, some of which we have been talking about here today that will be embodied in the POM's that come back to me by April 2 from the services. Then we go through an interim process, where I work those with the services and within the department. Ultimately, all of that gets filtered into the budget that we submit to the President next fall and that will come to Congress next year.

This is separate and apart from this. This effort that we were talking about this morning and that I think your staffers were briefed on previously has to do with the defense management initiatives that we have embodied in the 1991 budget that deals specifically with better management of the department, as opposed to your planning and programming budgeting system.

Senator GRASSLEY. Then you are telling me——

Secretary CHENEY. But we are doing both.

Senator GRASSLEY. OK. It is my understanding the defense planning guidances were sent out, but the objectives were not, and so would you check that out?

Secretary CHENEY. Certainly.

Senator GRASSLEY. I guess that leads me back to a comment that you made in the first round. You said there was not a 20-year plan, because you said you had a hard enough time to look ahead 5 or 6 years and now——

Secretary CHENEY. The point I tried to make, Senator, is that given the way things have changed in the last 6 months, we are spending our time and effort trying to get a 5-year or now 6-year plan pulled together to present to the Congress shortly. Obviously, you would like to look 20 years down the road, but that is somewhat problematic, given the pace of change we have seen in the world in the last 12 months.

Senator GRASSLEY. I do not think anybody made you say that you had to look 20 years down the road.

Secretary CHENEY. We would like to.

Senator GRASSLEY. This is what you said in your——

Secretary CHENEY. That is right and we would like very much to be able to look 20 years down the road and we are in the midst, right now, of preparing the next 6-year plan.

Senator GRASSLEY. Is your 20 percent roadmap for budgeting or is it for modernization and investment analysis?

Secretary CHENEY. Do you mean the 20-year roadmap?

Senator GRASSLEY. Yes.

Secretary CHENEY. You said 20 percent roadmap?

Senator GRASSLEY. I am sorry, 20-year roadmap.

Secretary CHENEY. Obviously, to the extent we can, we would like to look as far down the road as possible. When we look at systems like, for example, our strategic modernization programs, the B–2, the mobile missile systems or the Trident submarines, those are clearly systems and force structures that have elements which allow us to think in terms of that kind of long-term planning. A lot of those systems will last 30 years. When we look at our aircraft carrier forces, which we have been wrestling with and will continue to look at—and we are talking about carriers that will be in force for 45 years—clearly, we are doing the best we can to take those kinds of considerations into account as we do long-range planning.

My most immediate requirement, though, in terms of what we need right away, is to complete our efforts to pull together the 6-year plan that will be submitted to the Congress a year from now which reflects the changes that we have seen in the last 6 months in the international situation.

Senator GRASSLEY. Well, the bottom line, Mr. Secretary, is that the DMR outlines some very important planning reforms and I think they appear to be absent. I look forward to you to show me that they are not absent and I am speaking not only from the documents I have, but also from staff briefings.

I guess I would like to suggest that we visit about this in the future, but I think more importantly, Mr. Chairman, I would suggest that the committee pay considerable attention to this whole fact, because it is really the key to making the reforms that are necessary and we have got to make sure that there is not a disconnect between a very good document here, very well-intentioned, and what comes out the other end of the pipeline.

I think, Mr. Cheney, that you can be undercut and maybe not know it and I want to help you so that you are not. I think you need help from up here on the Hill and I want to be helpful to you. I have seen too many.

The House Armed Services Committee said there were four plans after World War II, between then and 1965, on defense management reform and we have had four in this administration, including your initiatives, and none of them have been carried out and I want this one carried out. You have had three heart bypass operations and I would like to see it done while you are still around and I think you are a person that can do it. [Laughter.]

Secretary CHENEY. I am not quite sure how to respond to that. I have not had three heart bypass operations, but I have had one. I am going to need some kind of fix after I finish this session here today. [Laughter.]

We are determined, Senator, I can assure you, to carry out the management review report. There have been a lot of studies in the past. I have looked at most of them over the course of the last 11 months since I have been Secretary. The problem is always on the followthrough and getting the good intentions that get embodied in the decisions about what needs to be done actually implemented.

That is why I come back to this proposition that what is required here is sort of the continual day-in and day-out, hard, tough, nitty-gritty work of improving the overall management of the building. There is oftentimes a tendency to think that there is some home-run ball that can be hit out there or a touchdown pass that can be thrown that will immediately, overnight, fix the management problems in the Pentagon. It does not work that way. It is a $300 billion, 3 million person enterprise. As was pointed out earlier, we issue 13 million contracts a year. It is 3 years and a cloud of dust. There are no magic management ideas.

What is required is the kind of thing that is embodied in this document and now imbedded in our budget for 1991 and the outyears, where we, in fact, go out with closed bases, we realign functions, eliminate duplication of effort, and consolidate activities, so that long-term, we get more efficient operations and a better return for the taxpayer on the dollar. We, in fact, are doing everything we can in that area.

I will be the first to admit that not everybody in the department always marches in the direction I would like to have them march. But I think, on balance, we have a good management team onboard now. The President has given us strong support. We have received good support from the Congress, and I think we will continue to receive good support in the future. I look forward to working with you to see to it that we, in fact, bring about every conceivable improvement in the management of the department that you and I both would like to see.

Senator GRASSLEY. I would like to have you see if everybody is marching to the same drummer just on the 20-year roadmap exercise, or whether or not that has not actually been abandoned, because there is no consensus that can be found on how to do them or even if they could be done.

Secretary CHENEY. Senator, all I can tell you is that we continue to work the problem, and we will be happy to sit down and talk with you about specific questions or considerations that you would like to bring to our attention.

Senator GRASSLEY. Thank you.

Chairman SASSER. Thank you very much, Senator Grassley.

I agree with some of the observations that Senator Grassley has said here today about putting in place the defense management report.

Secretary CHENEY. I would urge both of you to read the report that we have here and then I will be happy to pursue it.

Chairman SASSER. I might say to Senator Grassley, I was just complimenting the Secretary earlier today on how robust and healthy he looked. [Laughter.]

Senator GRASSLEY. I do not want to insinuate he does not look healthy. I want him to stay healthy, but I want him to get this done real quickly.

Chairman SASSER. Well, I will let that go. I am not going to say any more about that.

Mr. Secretary, one final question and observation here. We talked earlier today about this very changed world in which we live and a world in which I do not think any of us could reasonably have anticipated 12 to 24 months ago. The changes that have taken place in Eastern Europe are simply mind-boggling.

I had one individual learned in military affairs to indicate to me just a few weeks ago that, in essence, what has happened is 55 divisions have been taken off the table as far as the Warsaw Pact nations are concerned. You yourself have indicated that fully 50 percent of the first-line or at least first-thrust of the Warsaw Pact nations came from the Eastern European countries. That is gone now and I think that change there is irreversible.

I have said that even if Joe Stalin came back to the Kremlin tomorrow, that he could not put this thing back together. If the Soviet armies should launch or attempt to launch an invasion of Western Europe through East Germany, I think they would have to be concerned about their own lines of communication and concerned about doing battle with East German troops, Czechoslovakian troops, if they came through Czechoslovakia, et cetera.

So, it is a very different world in which we live and we can discuss questions of defense spending as percent of gross national product. The United States and the people of this country I think have carried more than our fair share of this burden since about 1948, 1949 or 1950, and I think we now have won and as part of that victory perhaps we might ought to start looking ahead to some of the fruits of it.

Just looking at some numbers here, the NATO average of GNP devoted to their defense budget stands at just slightly over 3 percent. Our friends the West Germans—and they are right on the front lines—they spend just slightly over 3 percent. I was interested to read that the West Germans apparently are going to unilaterally reduce their ground forces by 20 percent in 1990. The Belgians have pulled their troops out of Germany, or at least are in the process of doing it. Correct me if I am wrong on that, General Powell.

General Powell. There have been some reports, but they have not pulled out yet.

Chairman Sasser. All right. So, what I am coming around to saying, when I look at a defense budget in which we say we are doing away with the M-1 tank program, well, we are but we are going to go ahead and buy 225 M-1 tanks to the tune of $1.3 or $1.4 billion in 1991. We are going to pay for them with 1990 dollars, but they are still dollars. We have got 7,000 M-1 tanks. They are built to fight a war on the plains of Western Europe, and if there is no war there we have no use for M-1 tanks. My guess is that, in a few years, we are going to be talking about a much lighter, more mobile-type tanks like the old ones we took down in General Powell's very successful operation in Panama.

Well, what I am coming around not saying is that we have got to find $37 billion in deficit reduction to meet this $64 billion Gramm-Rudman-Hollings target. When we get through talking about all the grand strategy, we have got to talk about the money here in this committee, as you know very well.

Now, the President says we are not going to raise any additional taxes other than those that are in his budget, and that is fine. We are not horsing over here to raise taxes and we are certainly not going to try to raise taxes if the President is opposed to it. He is going to have to be a partner in that, if it happens. But if there are no new revenues, that means that this deficit reduction is going to have to come off the spending side of the budget.

When we take out social security, which you showed on your chart as one of the growing expenditure programs, indeed it is, but social security pays its way and this year will have an additional, not only pay its way but will contribute an additional $64 billion to deficit reduction.

But you take social security off the table and you take off the means-tested programs, you pay the net interest. What that leaves us is about $600 billion, out of which to make the deficit reduction. Half of that is the defense budget. So we have got to find $37 billion for additional deficit reduction.

Now, I am just going to put it to you straight-up here today and say that I believe your budget is, at a very minimum, about $10 billion off the mark and that is the minimum figure it is off. Have you given any thought over there, have you started planning in the Pentagon for additional reductions that are going to come down the road when you do not get your budget here that you presented to us? Quite frankly, I do not think there is a chance in the world that Congress is going to give you the budget as it has been presented here today. What reductions are you going to make over there if we come in with a budget that is $10 billion or $12 billion below yours in outlays, or if there is a sequester and you have got to swallow about $18 to $20 billion over there?

Secretary CHENEY. Senator, the budget that we have submitted is the President's budget. It was put together in accordance with his guidance and directive. It is the administration's position. Now, we think it represents the minimum that is required for us to do the job the country expects us to do for them. It does represent a significant reduction over what had been forecast last year in terms of 1991 spending. It does represent the first time in 15 years a President has come up here and asked for real reductions in defense spending. It does, I think, incorporate within it responsible assumptions about the kinds of changes we have seen take place in Europe and the Soviet Union.

It also is the first year in a program of building down the overall level of defense spending to the lowest level as a percentage of the Federal budget in over 50 years. So, I think it is a good package.

Now, having just put it together and submitted it on January 29, some 6 days ago, I think it is a little premature from my standpoint to be out there coming up with additional cuts. I am hopeful that the Congress will see the light and adopt the President's budget and that will solve a lot of problems.

Chairman SASSER. All right, Mr. Secretary, but I would urge that you—and I am sure General Powell, good commander and strategist that he is, has already started developing his contingency plans—so I would urge you to start dusting those off and polishing them up, because I think you may have to put them into effect.

Mr. Secretary and General Powell, thank you very much for your attendance here and your testimony. We appreciate it.

Secretary CHENEY. Thank you, Senator.

General POWELL. Thank you, Mr. Chairman.

Chairman SASSER. The committee is in recess.

[Whereupon, at 1:37 p.m., the committee was adjourned.]

STATEMENT OF SENATOR SYMMS

Mr. Chairman, members of the Committee, Secretary Cheney, and General Powell:

I do not wish to delay the proceeding of this hearing too long. I believe there are many important issues that we must address today, and we should afford as much time as possible to our two distinguished guests. However, there are a few general points that I want to discuss before we begin.

Mr. Secretary and General Powell, I want to first commend you for the work you have both done. I think everyone can agree that the past few months have been interesting times—to say the least—for the United States and the world. And during these times, the two of you have been in a most unenviable position. For instance, the tasks of organizing and directing the very successful "Operation Just Cause." Also, trying to determine our net assessment in light of the ever-changing events occurring in Eastern Europe and the Soviet Union. And now you have had to prepare a defense budget that maintains the President's commitment to a strong national defense, but recognizes our fiscal constraints. So, I just want to compliment the both of you on what I believe has been a job well done.

Mr. Chairman, with regard to our military budget, I think it is safe to say that there are certain areas that have been, and will continue to be, very controversial. I want to address briefly just a few today.

One of the most important areas of our defense—and the one which debate is most heated—is our strategic programs. Let me just say briefly that as we grapple with this budget, I believe it is particularly important that we maintain a highly credible and effective strategic force to deter any potential actions of an aggressive nation against the United States, or our allies.

The Soviets, despite their rhetoric of glastnost and perestroika, continue to upgrade and deploy new offensive strategic systems, including significant numbers, of rail-based SS–24s and road-mobile SS–25s. They are following an aggressive program to invest in systems that will benefit their capabilities under a START treaty. With this in mind, our programs such as the B–2, MX rail-garrison, LANCE follow-on SDI, and other strategic offensive and defensive systems continue to play very significant roles in our future defensive strategy.

I firmly believe that the Strategic Defense Initiative will be needed now more than ever. SDI is our insurance policy under a post-START environment. I am pleased to see the Administration's budget request contains an increase of almost $1 billion for the program. It is important we continue to pursue a coherent SDI research and development program that, in the future, allows the President and Congress to determine a feasible deployment schedule. SDI is very important to the United States, because despite the changes in Eastern Europe or in the Soviet Union, the strategic threat to this country has not declined.

On matters of conventional force structure, there are certain points I want to make as well. First is with regard to our defense structure and strategy. In light of changes in forward deployment, I believe we would be acting foolishly and hastily if we dramatically alter our strategy. It has been the "Peace through Strength" doctrine that has carried us this far, and one that should not be readily abandoned.

Times may indeed be changing, but there are certain policies we must adhere to. Secretary Cheney, you had alluded to these issues last week before the Armed Services Committee, such as maintaining sufficient nuclear forces, relying on our forward deployment, pursuing a doctrine of flexible response, and stressing the importance of maritime superiority.

I completely agree that the events in Eastern Europe and the Soviet Union can, in part, point to our economic success and military strength, coupled with the desire of those people to live in freedom and pursue self-determination. In time, there may be the need to reassess our strategy. However, the current state of unrest and uncertainty warrants the need to remain firm and committed.

The second point regarding conventional forces pertains to our readiness and sustainability. Though force structure will be reduced, we must ensure our fighting forces continue to receive the best training, equipment, and support we can provide. Through force reductions we can have a leaner, meaner, and more flexible military, but we need to continue to proved the quality wherewithal if our forces were called to war.

So, I say in short to everyone, that despite the fanfare, the press reports, and news hype of a better and safer world, we have a commitment to the American people to take a rational, thoughtful, and deliberate approach toward our defense budget. Indeed, we have a difficult task ahead of us, and I look foreward to working with everyone on this important matter.

Thank you Mr. Chairman.

REPORT

ON

DEPARTMENT OF DEFENSE SPARE PARTS MANAGEMENT

For the Senate

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

Prepared by the Majority Staff
Committee on the Budget

JIM SASSER, Tennessee, Chairman

FEBRUARY 1990

FOREWORD

In the mid-1980s, Congress and the public were stunned by reports that the Pentagon was paying outrageously high prices for spare parts, prices such as $100 for a diode which should have cost four cents, $37 for a small machine screw that should have cost a penny, and $917 for chair leg caps that should have cost 35 cents each.

Some of the reforms taken to end those abuses have created a new problem - a flood of spares which has glutted warehouses and led to problems finding some parts. Other parts have been stored outside rather than inside as they should be, leading to their being damaged by the elements.

There is already an inventory of more than $100 billion worth of spare parts, including more than $30 billion worth of items which the Pentagon acknowledges as being unrequired. Yet, there are tens of billions more still in the pipeline.

Studies by the Pentagon's own Inspector General and auditors for the Services have found that defense managers have almost $2 billion of items on order which the Defense Department may never need.

As we shape a defense budget for a changing world, the Defense Department needs to insure that our defense dollars are spent wisely to buy only equipment our forces need, and an inventory system which can assure that those parts get to the right place at the right time.

Jim Sasser

Jim Sasser
Chairman
Committee on the Budget
United States Senate

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UNITED STATES SENATE

COMMITTEE ON THE BUDGET

REPORT ON

DEPARTMENT OF DEFENSE SPARE PARTS MANAGEMENT

INTRODUCTION

As part of the defense build-up which began a decade ago, the Pentagon bought a vast array of spare parts to support new and existing weapons. But it was soon plagued by "horror stories" about $400 hammers, $600 toilet seat covers, $7,600 coffee makers, and pliers costing $748.

As a result of the decade-long growth in defense, Pentagon warehouses are full of spare parts, so crowded that new warehouses have to be built. About one-third of the material is known as "inapplicable inventory," a bureaucratic term for things the Defense Department doesn't plan to use anytime soon, and, in fact, may never use.

The Pentagon's warehouses are full of over $100 billion worth of spare parts, including over $30 billion of equipment the Pentagon says it doesn't need. Meantime, an additional $20 billion in parts are on order and another $30 billion is available for obligation.

Like the Sorcerer's Apprentice in the Disney movie, "Fantasia," who found it easy to turn on the magic but difficult to shut it off, the defense procurement system is swamped by oversupply.

Part of the problem is the Defense Department's restrictive policy on disposing of spare parts. In short, while much is bought, little is ever thrown away, leading to shelves full of parts which are unlikely to be used. Meantime, other parts, such as ship propellers and sensitive helicopter parts, sit outside where they are damaged by the elements.

The problems with the Defense Department's inventory management system have been well-documented in recent years by the General Accounting Office, the Defense Department's Inspector General, audit agencies for the various armed services, federally-funded studies, and various committees of Congress.

Yet, despite those studies and promises by the Pentagon agencies to do better, a review of the current situation by the Senate Budget Committee staff found that many old problems remain, even as the Defense Department enters a new decade confronting new problems.

In this report, there are details about:

- The more than $30 billion worth of "inapplicable material" which the Pentagon acknowledges is in excess of its own requirements.
- An Army purchase of 126 different sizes for shirts for female soldiers, despite warnings that many of the shirts would never be worn.
- The Navy's acquisition of a 13,157 year supply of one part used on the F-14 jet.
- The Defense Department's continuing practice of storing parts for weapon systems which are old or being phased-out, while newer material waits outside for adequate warehouse space.

SUMMARY OF FINDINGS

While the defense build-up of the 1980s brought much-needed improvements and modernization to America's Armed Forces, the Pentagon continues to have problems in managing its large inventory of spare parts. A poorly managed inventory of spare parts creates a wide variety of problems, including:

- Money is wasted purchasing and warehousing unnecessary supplies.
- Inventory control becomes much more difficult, causing material to be misplaced, creating some spot shortages of needed supplies and causing spoilage and additional repair requirements for parts stored inappropriately.
- A costly requirement for additional depots and warehouses to store unneeded material.

Specific findings include:

1. There has been enormous growth in the Pentagon's inventory of spare parts, from $60.7 billion worth of material in fiscal 1983, to $103 billion at the end of fiscal 1988. The largest rate of growth in that category has been in "inapplicable inventory," items the Pentagon says it doesn't need and may never need.
2. In many cases, Pentagon agencies are still buying spares which have already been identified as unneeded.
3. A significant part of the growth is due to inefficient management practices, both in determining needs and in managing the material once it is procured.
4. Pentagon warehouses and depots are glutted. In part to accommodate the oversupply, hundreds of millions of dollars are being spent on new warehouses.
5. Despite numerous studies and recommendations for change, the problem with inventory growth and management is worsening.

While the problem of overpriced spares has been previously addressed, it has not yet been solved. Furthermore, Pentagon management reports and recent plans to change the budget treatment for spare parts inventory may create the false impression that the problem is being solved. These issues are discussed in separate sections of the report.

SECTION I

Findings Pertaining to

Spare Parts Management

Finding 1: Inventory Growth. There has been enormous growth in the Pentagon's inventory of spare parts, from $60.7 billion worth of material in fiscal 1983, to $103 billion at the end of fiscal 1988. The largest rate of growth in that category has been in "inapplicable inventory" – over $30 billion of items the Pentagon says it doesn't need now and may never need.

The amount of material purchased and saved by the Pentagon has risen steadily throughout the last half of the 1980s, reflecting the defense build-up which began after President Reagan took office in 1981. The biggest increase is "inapplicable inventory," which rose from $14.6 billion in fiscal 1983 to $33.6 billion at the end of fiscal 1988.

The Pentagon uses a variety of categories to describe its stockpile. "Inapplicable inventory" is the phrase used to describe items the Defense Department won't need for at least two years. Some of the material might be used during wartime, but much of it will end up being thrown away. Depots and warehouses have hundreds of such items, stored in bins and shelves, sometimes under thick layers of dust.

The total inventory includes almost 5 million items, ranging from clothing to components for weapons. The Air Force has the largest part of the inventory, 41 percent, while the Navy is second with about 31 percent. The figures are for the end of fiscal 1988, the last full year for which statistics are available. The services say the growth is due to a number of reasons, including inflation, force modernization, difficulties in predicting usage and demand, changes in the ways spares are purchased, and DoD-wide changes in retention policies, which have resulted in keeping more items for longer periods.

But the GAO and other studies have also attributed part of the increase to unrealistic and overstated needs and the failure to terminate contracts for unneeded spares. For example, a 1989 Air Force internal audit estimated that 4,800 of 17,723 stock numbers were erroneously retained. The 4,800 items cost about $300 million to purchase and occupied 600,000 cubic feet of storage space.

The problem has been made worse by the increased amount of money available for procurement as part of the defense build-up. The Defense Department watches money available for spending to make sure that the funds are obligated. The result is pressure to buy, even if the items may not be needed.

Besides the term "inapplicable inventory," another phrase used within the Pentagon is "long supply." It describes items the Pentagon no longer plans to buy but which are on hand.

In March, 1989, the GAO testified to Congress that the Pentagon had more than 50 years' worth of supply for 1,241 items valued at $65 million and had 25 to 50 years worth of supply for 852 items with a value of $37.6 million.

In one extreme case, the GAO noted, the Navy had a 13,157-year supply of a type of a machine tool used to make circuits for the F-14 plane. The Navy uses four of these each year and had a total of 52,628 in stock.

At Defense Logistics Agency warehouses, there are crates containing 150,000 pair of cold weather trousers which date back to the Korean War.

Some of the inapplicable inventory consists of parts for weapons systems which are old or are being phased out, such as Army CH-47 helicopters and Navy A-3 planes.

But in other cases, the services are buying spares before the items are needed, creating excessive amounts of stock and increasing purchasing and storage costs. For example, the GAO found last year that the Army was prematurely buying parts for missiles and tanks. The parts later turned out to be unneeded.

In 1985, the Army wanted to add 100 more sizes to the existing 58 sizes for the long-sleeved dress shirt issued female soldiers. Ignoring warnings from the Defense Logistics Agency (DLA) that 158 sizes weren't needed, the Army went ahead and added 68 sizes, bringing the total available to 126 different sizes. That proved to be excessive for the 86,000 women in the active service. More than $3 million of the shirts, costing $14 each, are now gathering dust. Now the Army wants a totally new shirt.

Undeterred by the Army's experience, the Navy, which has about 40 sizes available for its females' shirts, wants to increase the number of sizes available. This action is again begin taken over the objections of the Defense Logistics Agency. Neither Service appears to have contacted private sector makers of women's apparel, which traditionally manufactures less than 40 different sizes of women's shirts.

Oddly enough, the Army spent $3.5 million over several years measuring different women to determine how many shirts sizes to buy. In contrast, an apparel industry spokesman noted that the private sector ceased doing these anthropometric studies after World War II because "they are expensive and unnecessary."

Finding 2: Buying Unneeded Parts. In many cases, Pentagon agencies are still buying spares which have already been identified as inapplicable or unneeded.

Once the lengthy and complex defense procurement process is started, it is not always easy to turn off. The result is that, at any given time, there is a large dollar amount of procurements in process for items which are already known to have unneeded inventories. There are systems in the services and the Defense Logistics Agency which "flag" these procurements for possible termination. But despite being flagged, these procurements often are not terminated.

A summary report by the Pentagon Inspector General, dated November, 1989, indicates that the Defense Department is not serious about aggressively terminating contracts. It discussed audit work at five buying activities which had $1.8 billion worth of unneeded spare parts on order at the time of the audit. The auditors found that less than 10 percent of the orders had been terminated, whereas the auditors concluded that between 36 percent and 78 percent should have been ended.

Examples of dollar values of procurements in process for items that already had inapplicable inventory on-hand last year include:

- $350 million at the Defense Logistics Agency.
- $500 million for aircraft spare parts at the Air Force.
- More than $500 million for Navy spare parts.

In addition, there was more than $400 million in unneeded spares being purchased at least two major Army commands in 1987.

Some defense officials contend that it is not as bad as it looks. To some extent, they contend, it makes good sense to continue some procurements even when it is known the items are not needed. As noted above, each of the services and DLA have large-dollar procurements on order for items already in long supply. For example, the Navy has been monitoring these procurements on a Navy-wide level and has concluded that it probably can't get the amount of unneeded procurements below a level of about $100 million.

Nevertheless, there are strong indications that the services and DLA can and should do better. Defense auditors concluded last year that more effective termination practices at 13 defense buying centers could save $1 billion over a five-year period. An internal Army study at one major buying activity found that in more than half the cases studied, procurement managers didn't even bother to review procurements that were flagged for possible termination or other action. Officials from the Logistics Management Institute (LMI) and others believe that procurement managers are often so caught up in the press of current business that going back to review old procurements is simply not a high priority.

In light of continued criticism contained in audit reports, the Assistant Secretary of Defense, Production and Logistics issued a policy letter in December, 1989, to the services and DLA calling for a more aggressive approach to contract terminations for spares which are no longer needed. Service personnel in some cases noted that just recently, they have begun to feel pressure to increase the number of contract terminations.

Nevertheless, DLA managers said terminations actually occur only 3 percent of the time that the system recommends termination. In the Air Force, terminations occur only about one-fourth of the time or less. The other Services did not have similar overall statistics readily available but did acknowledge that very frequently, contracts are not terminated even when the system flags a procurement for possible termination. Generally, the DLA and Service managers said the item managers' judgement and "intuition" are critical in deciding whether or not to terminate a procurement. Some high level Defense officials also acknowledged a "longstanding cultural bias" which perceives that termination will almost always be a more costly alternative than allowing deliveries to be made -- even when on-hand inventory is already in long supply.

Finding 3: Inefficient Management Practices. **Part of the growth is due to inefficient management practices, both in determining needs and in managing the material once it is procured.**

Studies by the General Accounting Office, as well as other Defense audit agencies and study groups, have concluded that poor management practices account for part of the excessive growth. For example, defense managers have sometimes obtained items before they are needed and have bought more items than can be economically ordered.

One major reason items have been obtained before they are needed is because managers often overestimate procurement lead times. For example, an estimated lead time may be one year, but the actual lead time only turns out to be six months.

In some cases, such occurrences may be unavoidable. However, the Logistics Management Institute (LMI), which has been reviewing defense inventory management problems for the past five years, has reported that many contractors overestimate, or "pad," lead times to cover administrative delays and to avoid delinquency problems.

Past audits have shown that it has not always been the contractors' fault. Defense managers simply order too early or purposefully authorize contractors to deliver early.

Both the General Accounting Office and the Logistics Management Institute have criticized Defense Department practices of buying more than economic order levels. For example, a LMI report in August, 1988, said a widespread Pentagon change of buying a one-year supply, rather than a three-month supply, had been a major factor in adding $14 billion of unrequired stock. The report essentially suggests that the advantages (e.g., lower prices in some cases and reduced procurement work load) of buying in one-year amounts are greatly outweighed by the bigger risk of investing in, and paying for storage of, items which later become inapplicable.

An added factor which faces Defense Department managers is the constant pressure to assure that available funds are obligated. Because of this pressure, Defense managers may feel pushed to order larger quantities or order them prematurely.

As indicated in the introduction, Pentagon officials have some justifiable explanations for inventory growth, such as equipment modifications and inflation. But one individual who has studied inventory issues for several years suggested that these reasons probably explain only about half the increase.

Finding 4: Glutted Warehouses. Pentagon warehouses and depots are glutted. Many are full beyond the level used by the Pentagon as the efficiency standard. In part to accommodate the oversupply, hundreds of millions of dollars are being spent on new warehouses.

The services and other Pentagon agencies maintain a variety of depots and warehouses. Normally, the Pentagon aims to keep them at an 85 percent storage rate, with the remaining space used to move material around. The Army's warehouses and depots average 87 to 95 percent full. Five of the 10 Navy depots in the United States say they are 100 percent full and the average for all 10 is 97.5 occupied. The six Defense Logistics Agency depots range from 93.4 percent to 98.6 percent full.

The crush has created a number of problems:

- Items cannot always be stored in a single place. One Army item was stored at 27 different locations in California.

- Some items are lost within the system. This past year, 80,000 jungle camouflage covers for Army helmets were reported as lost and after more were purchased, the original 80,000 turned up, leading to an oversupply.

- Army aviation officials claim the glut has led to problems with helicopter repair. Some parts can't be found as quickly as they are needed, others are damaged and have to be repaired because they are stored outside. Some electronic parts have been stored outside for so long that they were unsalvageable.

- Some spare parts are being held at contractors because there is no room for the parts in Pentagon warehouses.

In addition, Senate Budget Committee staff found that parts for the Army's AH-64 Apache helicopter were stored outside because there was no room inside. The brand-new parts had to be extensively overhauled before they could be used and, in some cases, were found to be unsalvageable. In another case, ship propellers were stored on the docks at Oakland, California. Navy officials say the propellers should be inside and will require additional work before use because of the outside storage. But there is no room for the propellers inside.

In part to accommodate this oversupply, new depots and warehouses are being constructed. In the five years from 1986 through 1990, the services and the DLA were authorized to spend $695 million for warehouse and depot projects. In the current fiscal year, the Army and the Defense Logistics Agency are spending $137 million for depot and warehouse construction.

Finding 5: The Pipeline. Spare parts inventories, including items in long supply, are still on an upward trend that will not be halted without action.

It is estimated that about $20 billion worth of spare parts is now on order. Perhaps as much as $2 billion of this amount is associated with items for which the inventory already on-hand is in long supply.

In addition, as of January, 1990, there is an estimated $30 billion in spare parts procurement money still available for obligation. Most of this amount is in 1990 funds, but nearly a billion dollars is available from prior years. It is highly likely that most of this money will be obligated unless external pressures are brought to bear on the defense community.

A Defense Department-wide spare parts inventory figure as of the end of 1980 was not yet officially available at the time of this study. However, available information for two services and the Defense Logistics Agency suggest that the 1989 inventories were still higher than those at the end of 1988.

INCREASE IN INVENTORIES

	Sept. 30, 1988 (Billions)	Sept. 30, 1989 (Billions)	Dollar Increase (Billions)	1988-1989 Percent Increases
Air Force	$41.8	$44.6	$2.8	6.7
Army	$12.4	$13.9	$1.5	12.1
DLA	$9.4	$10.4	$1.0	10.6

The problem of inventory growth, particularly long supply items, does not seem likely to be resolved in the near term unless a conscious and aggressive effort is made to assure that available funds are wisely spent.

SECTION II

Findings Pertaining to

Pricing Issues

Defense initiatives started in the mid-1980s to control overpricing still produce a flurry of activity and reporting, but real results are sputtering to a halt. Even when the Services identify overpricing, they rarely recover any money. For example, refunds to the Army from overpriced spares dropped from $901,000 in 1988 to only $47,000 in 1989. The Navy has been able to recover only 3 percent of $23.7 million in identified overpriced spares.

Each of the Services and the Defense Logistics Agency still has in place programs to ferret out overpricing and to attempt corrective action, such as seeking refunds from suppliers. For example, both the Navy and the Army have pricing hotlines which military personnel can use to report suspected overpricing. While the Air Force and DLA do not have pricing hotlines, they have procedures that permit the same process via written forms. Another example is a special Navy detachment which performs "should cost" studies on items referred to it because of potential overpricing.

Nonetheless, a review of some recent results suggests that spare parts pricing problems have not yet been fully overcome. The following indications of lingering or renewed pricing problems exist.

Navy

- In 1988, the Navy detachment that performs "should cost" studies analyzed 5,675 items, and found that 55 percent were overpriced.
- A March 1989 Naval Audit Service report stated that Navy auditors had found that out of $23.7 million in overpricing, the Navy had recovered only about $600,000, or less than 3 percent.

Army

- o Between 1984-1989, the Army reported about 11,800 prices had been challenged, of which about 10,800 had been "resolved" (about half were items procured by the Army). Investigative work on price challenges is performed by the Army buying units which agreed to the prices initially, rather than an independent unit. Army officials acknowledged that the termed "resolved" almost always results in a determination by the buying activities that there was no overpricing.

- o There was a sharp drop in refunds to the Army in 1989. For 1989, the Army reported refunds of only about $47,000 compared to about $901,000 in 1988.

Air Force

- o Officials at one Air Logistics Center noted that the Air Force's program, called Zero Overpricing, is not getting the pay-off it did a few years ago. For example, 5 years ago, the Center was receiving an average of over 200 challenges monthly but now receives an average of only about 50 monthly. Center officials said they have not analyzed why there was such a sharp decrease, but they said they "hoped" it meant there simply was less overpricing. Even so, the Center cited examples of significant overpricing in 1989, such as a bearing which had been procured at a $2,000 unit price but, after being challenged, was procured at a unit price of only $128.

Defense Logistics Agency

- o One DLA supply center reported that recently when price challenges are received, it practically never results in lowered purchase prices. For example, out of over 200 challenges in FY 1989, only one was identified as potentially overpriced. At another DLA supply center, officials said contractors have often simply refused to refund money. In such cases, officials said the DLA can refuse to buy future spare parts from the contractor, but there is little the agency can legally do to recover past overpricing.

Service and DLA officials generally stated that increased competition rates have been achieved since the mid-1980s and therefore, spare parts prices have been favorably influenced. But officials also acknowledged that further increases in competition rates would still be desirable in some cases.

How much overpricing still exists in the Department of Defense? No one really knows. Clearly, various Defense Department programs have had a favorable effect. Yet, in light of the vast number of items and quantities procured and the indications cited above, continued and aggressive vigilance is warranted.

The problem of overpriced spares identified in the mid-1980s was aggressively attacked – in part due to Congressional action – by the Department of Defense in a variety of ways, such as pricing hotlines and programs to increase competition. In 1987, the General Accounting Office reported that, based on tests, all three Services and the DLA were moving "in the right direction" on spare parts prices. However, there are strong indications that the Department of Defense needs to renew and step up its review of spare parts prices.

SECTION III

Findings Pertaining to

Budget Games

The 1991 Defense budget request will include about $2.7 billion less in procurement accounts for spare parts than it would have otherwise because of a change in budget practices. To make this happen, the Department of Defense plans to have the Air Force and Army shift from using direct appropriations to finance spare parts purchases to financing spare parts through an existing revolving fund (known as the stock fund).

While this will reduce 1991 budget authority requirements, it will not result in real savings since the stock fund will need to be replenished in future years. The driving force for the budget change appears to be pressure to find ways to reduce the apparent size of the budget. The budget change was decided upon despite considerable skepticism within the Services as to whether it will help or hurt spare parts management.

Since 1981, the Navy has gradually shifted from using procurement funds to directly fund spare parts purchases and instead funds these purchases through the stock fund. The Navy believes its shift to stock fund financing of spare parts has resulted in significant cost savings and other benefits. The cost savings, according to the Navy, have been gained because use of the stock fund makes the Navy's spare parts customers more cost-conscious. Other benefits claimed by the Navy include increased material availability, reduced backorders, and reduced customer wait time. The Navy also highlights additional flexibility it has gained through using "one pot" of dollars for procurement or repair.

The other two Services have not agreed that similar benefits would accrue to them if they switched to use of the stock fund and have resisted. For example, the Air Force studied the idea in 1979, 1983 and 1986 and concluded each time that no benefits would accrue to the Air Force. The Army has noted that there will be no outlay savings, a greater risk of readiness impact, and a major implementation challenge because the Army's major commands currently oppose the idea.

A December 1988 report by the Office of the Secretary of Defense (OSD) said a study had not been able to prove or disprove the advantages of stock funding over procurement appropriation funding. The OSD study concluded the Navy's claimed benefits could not be validated. Further, the OSD study found that the Army and Air Force may not benefit from the new approach, and in fact may be hurt by it. The conclusion of the OSD report was essentially neutral, and simply listed three "alternatives" rather than making a definitive recommendation.

Nevertheless, OSD decided in late 1989 to have both the Air Force and Army adopt the stock funding approach in FY 1991. In light of the long-time Air Force and Army resistance, and the general neutrality of the December 1988 OSD report, it is not clear why this decision was made, especially the plan to make the switch so abruptly. The one factor which perhaps best explains the OSD decision was the search for ways to reduce the proposed 1991 budget figures.

It is unlikely that this budgetary shift will result in any real savings in the Department of Defense budget. Moreover, there is a risk that the Congress and the public may get a false impression that the reduced procurement request will result in a long-term reduction in Defense funding requirements.

CONCLUSIONS AND RECOMMENDATIONS

Even a cursory examination of Pentagon spare parts management practices reveals that new steps are needed now to improve these programs. To this end:

1. The Defense Department needs to develop and implement a Department-wide policy to identify and immediately cease the purchase of items already in excess of defense requirements.

2. A long-range plan is needed to identify and dispose of those items which are on-hand but unneeded. This should be done in such a manner that the U.S. Government can recover the maximum amount from its investment.

3. The Pentagon needs to immediately develop a plan to efficiently manage its overcrowded depots so that spare parts are appropriately safeguarded and can be expeditiously found and delivered to customers. This plan should include a review of future warehouse construction requirements.

The question of how to effectively manage an inventory of over $100 billion in spare parts will take on greater significance as the United States begins to adjust its military forces to the realities of a changing world.

For example, if the United States moves forward with President Bush's call to shrink the size of the active force deployed in Europe, the result is likely to be an increase in equipment and weaponry stored in the United States. Defense Department depot and warehouse managers readily admit that many of the force composition and deployment alternatives under consideration could significantly add to their problems.

Surely, the Department of Defense can do better in managing its spare parts inventory.

APPENDIX

Other Recent Reports on DOD Spare Parts Problems

- General Accounting Office Report, A Single Supply System Would Enhance Inventory Management and Readiness, NSIAD-90-53, January 1990.

- General Accounting Office Report, Naval Air Stations Have Inventory Accuracy Problems, NSIAD-90-45, December, 1989.

- Department of Defense Audit Report, Report on the Audits of Contract Terminations, No. 90-010, November 1989.

- General Accounting Office Report, Potential for Reducing Funding for Aircraft Spares, NSIAD-90-18, November 1989.

- General Accounting Office Report, Use of Long Supply Assets in Depot-Level Repair Programs Could Reduce Costs, NSIAD-90-27, November 1989.

- General Accounting Office Report, Buying Army Spares Too Soon Creates Excess Stocks and Increases Costs, NSIAD-89-196, August 1989.

- General Accounting Office Report, Aviation Component Repair Program Needs Greater Management Attention, NSIAD-89-171, July 1989.

- Air Force Audit Report, Inventory Controls, Project 8126124, June, 1989.

- General Accounting Office Report, Questionable Decisions Increased Initial Spares Costs for AV-8B Aircraft, NSIAD-89-103, March 1989.

- Navy Audit Service Report, Department of the Navy Price Challenge Program, 043-N-89, March, 1989.

- Logistics Management Institute, Dynamic Order Quantity-An Alternative to Economic Order Quantity, Report L614R2, August, 1988.

- General Accounting Office Report, Growth in Secondary Items, NSIAD-88-189BR, July 1988.

- General Accounting Office Report, Controls Over Material Furnished to Navy Contractors Can Be Improved, NSIAD-88-150, June, 1988.

- General Accounting Office Report, Air Force Inventory Accuracy Problems, NSIAD-88-133, May, 1988.

- General Accounting Office Report, Inventory Accuracy Problems, NSIAD-88-69, March, 1988.

- General Accounting Office Report, Air Force Can Improve Controls Over Contractor Access to DOD Supply System, NSIAD-88-99, March, 1988.

- General Accounting Office Report, Defense Logistics Agency Inventory Accuracy Problems, NSIAD-88-39, December, 1987.

- General Accounting Office Report, Inventory and Physical Security Problems Continue, NSIAD-88-11, October, 1987.

- General Accounting Office Report, Army Needs to Reduce Retail Level Excesses, NSIAD-87-197, September 1987.

- General Accounting Office Report, Defense Logistics Agency Implementation of the Spare Parts Initiatives, NSIAD-87-143, June 1987.

- General Accounting Office Report, Navy Implementation of the Spare Parts Initiatives, NSIAD-87-149, June 1987.

- General Accounting Office Report, Army Implementation of Spare Parts Initiatives, NSIAD-87-148, June 1987.

- General Accounting Office Report, Spare Parts Initiatives Air Force Implementation, NSIAD-87-28, February 1987.

- Logistics Management Institute, Procurement Leadtime: The Forgotten Factor, September, 1986.
- Logistics Management Institute, Nondemand-Based Stockage Policies, June 1986.

BUSH ADMINISTRATION'S FOREIGN POLICY PRIORITIES AND FISCAL YEAR 1991 BUDGET REQUEST: VIEWS OF THE SECRETARY OF STATE

WEDNESDAY, FEBRUARY 28, 1990

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to notice, at 9:37 a.m., in room SD-608, Dirksen Senate Office Building, Hon. Jim Sasser (chairman of the committee) presiding.

Present: Senators Sasser, Johnston, Exon, Sanford, Wirth, Fowler, Robb, Domenici, Boschwitz, Symms, Grassley, Kasten, Nickles, Gramm, and Bond.

Staff present: John L. Hilley, staff director; and Douglas Olin, assistant director.

For the minority: G. William Hoagland, staff director; and Charlie Flickner, senior analyst for international affairs.

OPENING STATEMENT OF CHAIRMAN SASSER

Chairman SASSER. The committee will come to order.

Mr. Secretary, let me begin by welcoming you this morning. It is a pleasure to have you here, before the committee, and we understand that you are under some time constraints this morning. And we will endeavor to do our best to meet those time constraints.

I might suggest, Mr. Secretary, that perhaps when we get into your statement if you could paraphrase that or hold that to a minimum, it would be helpful.

Let me also begin by commenting, Mr. Secretary, on the recent success that has occurred in Nicaragua. Last year, about this time, shortly after you assumed your post, as Secretary of State, the administration, to its great credit, and I think that probably you played a substantial role in that, put its faith in diplomacy and the ballot box. And did that, I think, at a time when you were probably subject to some criticism in your own party for doing that.

And you embraced the Arias peace plan and I think we have seen the result of that just in the last 2 days in Nicaragua. I think that the administration, under your leadership, and putting faith in the ballot, over the use of force and the bullet, has been justified by the events of Nicaragua in recent days.

Having said that, Mr. Secretary, there are other areas of which I feel I cannot be quite as laudatory. I, frankly, for one, am concerned about what I perceive to be a tendency on the part of our government, not to take the lead with regard to events that are occurring in Europe, particularly with regard to the consolidation of Germany.

I would like, very much, to see our government and this administration take more of a leadership role with our lives in setting out the parameters, under which we would cooperate in the consolidation of a new Germany. I was a little, more than a little, I was shocked to see the other day, the Chancellor of West Germany, Mr. Kohl, refusing to, as I read it, guarantee the present boundaries of Poland in his press conference with President Bush.

And I hear statements that our allies in western Europe, the French, the British, the Belgians, and others are concerned about what is occurring, with what some perceive to be a runaway consolidation of Germany.

And I think it would be well if our government would play more of a leadership role there in furnishing the assurance that our allies, I think, are entitled to and also establishing the parameters under which, perhaps, this reunification of Germany should go forward.

It seems to me that Chancellor Kohl is hell-bent on becoming the first Chancellor of a greater Germany, perhaps, since Adolph Hitler—I do not mean to compare those two men at all, because there is no comparison, in any way—but what we are seeing is, I think the moving forward towards a consolidation that appears to be almost too rapid, and I would like to see us furnish a little more leadership in that area.

Also, Mr. Secretary, I will just say that I think it is time to rethink a great many of our foreign aid programs. In all honesty some of them were developed decades ago and they never seem to work very well. They ought to be completely reassessed in light of today's realities.

For example, do we really need an 11-percent increase in military aid for countries other than Israel and Egypt, now that our major adversary is clearly refocusing its energies inside its own border?

This budget that is being presented to us, in many ways, seems like the administration's defense budget. It seems to start with what I perceive to be an antiquated map of the world's political boundaries. It works from a set of stagnant presumptions that, in my judgment, appear to be out of sync with the electricity of the moment.

Mr. Secretary, when you came before this committee last year, I indicated to you, at that time, that I believe you had the great good fortune to be the Secretary of State at a very crucial time in world history. And from what has occurred, over this past year, I think you would agree that we both greatly underestimated how quickly the world has changed around us.

And these changes present great opportunities but perhaps they also present the greatest challenges that we have had to face in three or four decades.

With that opening statement, I will turn to our distinguished ranking member for any statement that he might wish to make. Senator Domenici.

OPENING STATEMENT OF SENATOR DOMENICI

Senator DOMENICI. Mr. Secretary, thank you, very much for coming here today and thank you for all the work you have done on behalf of our country. We are very proud of you.

While the chairman may have some concerns about your leadership and that of the President in reference to the evolving democracies, let me speak as the ranking minority, we compliment you on what you have done.

I believe the issue with reference to East and West Germany is a serious one and I am hopeful that you will explain it today. I believe the position of the American government, as expressed by you and the President, is eminently clear. With reference to Poland, your position and the President's position is clear. I hope you will explain what you perceive to be the statements of Chancellor Kohl that have received so much attention these days.

I would just like to narrow my opening remarks to two issues. We are here, today, to have you explain to us why we need the foreign assistance, including the military assistance budget in the dollar sense, of the overall total amount?

I would like to make two points to you, Mr. Secretary. These are exciting times and I am absolutely confident that you must feel like you are participating in the evolution of a whole new world.

And having said that, I believe it is fair to say, Mr. Secretary, that the foreign assistance programs that we now have on the books are from a bygone era. As a matter of fact, many of them were not even cognizant of the fact that we were moving towards democracy and moving towards a more capitalistic economic system—one in which property and entrepreneurship and opportunity and growth were the order of the day.

So, I suggest to you, Mr. Secretary, as I have privately, that it is time to develop a whole new approach to foreign assistance, and perhaps, you ought to start almost anew, with a program for emerging democracies. Maybe you ought to recommend to us, after you have thought it through, how we establish a foreign aid program in conjunction with our allies, our free, industrial allies for a whole myriad of tools that would be used by the free world for emerging democracies.

That does not mean all foreign aid; it means the consolidation of voluntarism and the consolidation of expertise; the exchange of knowledge and education, but, obviously we need to do things differently and you must help us do that, for those emerging democracies.

Mr. Secretary, we are going to make some mistakes because the world has never had this situation. We have not had country-after-country to go from centralized, controlled governments—mostly communist in nature—to a very open societies with pluralism and private ownership and entrepreneurship as a part of their economic future.

It is absolutely imperative that we be on the cutting edge of pulling together the resources to do that in the right way.

My second point has to do with the environment. I was pleased to hear that yesterday that you suggested to the Governors that the environmental degradation in Eastern Europe was a part of the concern of the population there, that caused them to be excited about change.

Mr. Secretary, on the floor of the Senate, in the next week, we will have a major American environmental cleanup bill, extremely costly and hopefully extremely effective for the United States.

But, Mr. Secretary, it is imperative that while the United States clean its environment up, in particular, in energy production cleanup; utility cleanup, that we have some kind of international policy to help the developing countries and urge that they do environmental cleanup.

All of our cleanup with reference to either the greenhouse effect or acid rain will be for naught if the developing countries of the world are not encouraged to put on new technology and clean up their new growth.

They are going to grow, Mr. Secretary, because they want to and we want them to. I submit that now is the time for creative, new international approaches to helping finance environmental cleanup and helping finance environmental and energy technology for the developing countries.

This is a rare opportunity for America—not to fund at all as a financier, but—to encourage new ways of getting the resources pooled so that we can encourage countries to spend money on environmental cleanup and have a means of giving them the resources to do it.

There are many other issues that you are facing and certainly, you are confronted right now with things in this hemisphere, and my last remark is that as we look toward Europe and are excited about that, I hope we do not forget that in this hemisphere we have a rare opportunity with Mexico and Central America and South America moving toward democracy and economic growth, to become their real economic partners and friends.

It could be an exciting era for America with Mexico on the move and democracy on the move and Nicaragua now moving toward democracy and we want to make sure, some of us, that we do not put all of our attention on Europe and not keep some here, in this hemisphere.

Thank you, Mr. Chairman.

Chairman **Sasser**. Thank you, Senator Domenici.

Mr. Secretary, we have a good attendance this morning and I am sure all of these Senators have a lot of questions that they want to ask, so we will go to your statement now, and if you could summarize that as much as possible, we will try to expedite this hearing.

STATEMENT OF HON. JAMES A. BAKER III, SECRETARY OF STATE

Secretary **Baker**. I will do that, Mr. Chairman, and ask that the full statement be entered in the record.[1]

Before I give you a brief summary of that statement, let me simply say that I appreciate the comments that you made and the comments that Senator Domenici made and certainly you are quite correct, that this is a time of great opportunity; it is a time of great challenge and it is, indeed, a fascinating time to have the opportunity to serve as Secretary of State for the United States.

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[1] See p. 182.

Let me say, Mr. Chairman, that we are meeting here in the aftermath of another triumph for democracy. You mentioned in your remarks the gratification that I know you shared at the free and fair elections down there that have taken place. This marks, of course, a critical step towards restoring peace and democracy in that strife-torn country.

The President has declared our readiness to support Ms. Chamorro's new government and her difficult task of national reconstruction and reconciliation. And I think it is fair to say, Mr. Chairman, that the way is now open for fulfillment of the dream of the Central American peace process, and that dream, of course, is for peace and democracy for all the nations of this particular region that is so vital to the United States.

The welcomed events in Nicaragua, of course, are not an isolated case. You made reference to the fact, as did Senator Domenici, that we are entering into a new age of democracy around the world.

And let me, for the benefit of the committee, just cite a few examples from my recent trip abroad.

In Prague, Mr. Chairman, the old Czech and Slovak Republic is being recreated as a new and vigorous democracy. I was reminded during the course of my travels in Czechoslovakia that the United States was present at the creation of this nation in 1918, with Woodrow Wilson's leadership.

In Moscow, the Communist Party Plenum, led by President Gorbachev, has abandoned the guarantee of party primacy, setting the stage for the beginnings of possible multiparty politics.

In Bulgaria and Rumania, there are new and vigilant opposition groups pressuring for free and fair elections. So we are seeing the birth pangs of democracy in many of the countries of Eastern Europe.

In Ottawa, Mr. Chairman, I worked with my colleagues in NATO, the established democracies, to make progress on arms control and to make progress on new security arrangements that promise, I think, at last, a whole and free Europe, including a democratic Germany, as a member of the NATO alliance.

And, Mr. Chairman, let me disagree agreeably with you, with respect to the question of our leadership on the issue of unification of Germany. I would like to get into that with you in the question and answer period and address your question, perhaps a bit more fully at that time.

I think that Chancellor Kohl's visit here, this past weekend, reaffirmed that the long-standing United States/German partnership, which is, in fact, a partnership of free peoples, will continue to play a vital role in a new Europe.

And finally, of course, the democracies of our hemisphere, led by the President, took a large step forward at the Cartagena Summit, in an increasingly united campaign to win the war against drugs.

While all of this is going on, we see the welcome news coming out of South Africa of the release of Nelson Mandela. There can be no doubt, Mr. Chairman, to paraphrase your remarks and those of Senator Domenici, that the United States has a major role in fulfilling the promise of this new age of democracy.

After all the old dictatorships are swept away, the new democracies are going to have to be built up. So we do have major political, security and economic challenges that we have got to overcome.

The message that I brought throughout my travels and the message announced by the President, from his very first day in office, is the message the people around the world want to hear, and that is basically a message that says, as you travel the road toward democracy, as you face these challenges, you are not going to travel alone, the American people will be with you.

We are committed not just at the outset of the journey but we are committed straight through, until together, we bring about a new world of peace and a new world of freedom.

And that brings me, Mr. Chairman, to a brief summary of the resources we need for this journey to the new world, and that is our fiscal year 1991 budget request.

As you know, we are asking for $20.8 billion in discretionary authority for function 150; this is an increase, of course, of 8.9 percent over the levels for fiscal year 1990. We think it is an essential investment in American leadership and in our ability to influence the course of world events.

Our budget, Mr. Chairman, contains six new initiatives, in addition to a bare bones core program for foreign assistance and for operations.

While the entire request amounts to but 2 percent of the total Federal budget, we think that every bit of it is essential if we are to protect American values and interests into the next decade.

First of all, in support of the dramatic changes under way in Eastern Europe, we seek $300 million to promote democratic institutions, training and technical assistance, and environmental initiatives and to fund transitional economic support.

We have submitted legislation for this and we look forward to working closely with the Congress on this proposal.

Secondly, we are asking for $500 million in supplemental fiscal year 1990 economic support funds for Panama. These funds would underpin economic recovery for support for business credit, public investment and economic stabilization.

Third, we request $441 million in military, economic and counternarcotics assistance for the Andean countries. This initiative, we think, is essential to the President's drug strategy and after the successful summit at Cartagena, we and our partners look for congressional endorsement of our joint efforts.

Fourth, we are asking for $888 million to clear our arrearages to the United Nations, multinational organizations and the development banks over a 5-year period. We have made, as a government, jointly a commitment to fund these obligations. Over the next decade, Mr. Chairman, we expect an invigorated United Nations to make greater contributions to peace keeping efforts, to refugee settlement and to transnational issues, including narcotics, the environment and terrorism.

It is our view that the United States simply has got to live up to its solemn financial commitments to these organizations.

For our fifth initiative, we request $270 million for the new embassy building in Moscow. We have completed the review that I promised last year and now we ask this committee's endorsement of our plan.

Sixth, and finally, we seek $70 million in supplemental fiscal year 1990 funds to meet urgent refugee admission requirements, arising largely from the continued liberalization of Soviet emigration policy.

Now, Mr. Chairman, while these initiatives reflect our most urgent challenges, they really should not come at the expense of our core programs, which have been instrumental in paving the way to 40 years of peace and economic growth under free market principles.

Our modest request—$8.4 billion in security assistance, $6.6 billion in development and humanitarian assistance, and $5.3 billion in funding for operating expenses in international organizations—will meet only our highest priority programs for long-standing friends and valued western institutions.

Mr. Chairman, for additional information, let me refer you and the committee to my written statement and let me conclude on this note:

In today's changing world, and both you and the ranking member have taken note of this, we really need to be flexible if we are going to successfully manage this dynamic change that we see occurring, not just in Eastern Europe, but in our hemisphere, and, in fact, around the world.

We recognize that accountability and sound management are essential to the effective administration of foreign policy. I would, therefore, propose if I might, a kind of new code of conduct on foreign assistance.

I think we ought to look to constructive consultation as the primary vehicle for achieving consensus on program objectives, rather than to do the discredited practice of earmarking.

Let us explore together, Mr. Chairman, ways to achieve greater flexibility that serves everyone's interest as we deal with these extraordinary times and these changing priorities.

Chairman SASSER. Thank you Mr. Secretary.

[The prepared statement of Secretary Baker follows:]

STATEMENT OF
SECRETARY OF STATE JAMES A. BAKER, III
BEFORE THE
SENATE BUDGET COMMITTEE

FEBRUARY 28, 1990

Mr. Chairman, Members of the Committee:

I welcome the opportunity this morning to review with you the Bush Administration's foreign policy priorities and our Fiscal Year 91 budget request.

Three years ago, when I last testified before this Committee, I defended the Administration's budget as a whole. Today, as Secretary of State, I am responsible for only a small piece of that pie -- just 2 per cent of the total. I will not argue this morning that we in the foreign affairs community are entitled to a significantly greater share of Federal spending. The President and I recognize the realities of today's budgetary environment. But I will suggest that, in the dynamic world of the next decade, America's national security interests and our fundamental values of freedom and democracy must be protected by making sure we get every last bit of that 2 percent. And, because the world is changing so rapidly and the amount itself is so slender, we must have the flexibility to adapt the use of those funds to a dynamic world environment -- while ensuring to Congress accountability, consultations, and sound management.

We are meeting here in the aftermath of another triumph for democracy. I know you share my gratification that the free and fair Nicaraguan elections mark a critical step toward restoring peace and democracy in that strife-torn country. The President has declared our readiness to support Mrs. Chamorro's new government in her difficult task of national reconstruction and reconciliation. The way is now open for fulfillment of the dream of the Central American peace process -- peace and democracy in all the nations of the region.

The recent success of the elections in Nicaragua makes it all the more urgent that peace return to El Salvador. Our policy is clear: we fully support the Central American peace process and the call of the Central American presidents at San Isidro last December for the FMLN to cease its attacks upon civilians. We expect the FMLN to enter into negotiations with the democratically-elected government of President Cristiani under the U.N.'s good offices. This is the year to end the war in El Salvador. Soviet Foreign Minister Shevardnadze joined with me in Moscow to support the Central American Presidents' call for peace and democracy in El Salvador. We support President Cristiani's courageous efforts to bring to justice those who have abused human rights and to reinitiate a dialogue with the FMLN with the assistance of U.N. Secretary General Perez de Cuellar. And, we support his government's efforts to resist the violent efforts of the FMLN to impose its minority views by force.

In my confirmation testimony last year, I described a world in transition. It was my opinion then and even more so today that basic American values such as freedom, democracy, human dignity and fair play offered us the best foreign policy guide for this rapidly changing world. Over the last year, those values and the necessity for American leadership have been much in evidence. And, as I said then and repeat now, there is an equal need for bipartisanship.

Truly, we are entering into a new age of democracy around the world. I would cite just a few examples from my recent trip abroad.

In Prague, the old Czech and Slovak republic is being recreated as a new and vigorous democracy. In Moscow the Communist Party Plenum, led by President Gorbachev, abandoned the guarantee of party primacy, setting the stage for the beginnings of possible multiparty politics. In Bulgaria and Romania, new and vigilant opposition groups are pressuring for free and fair elections -- the birth pangs of democracy. In Ottawa, I worked with my colleagues in NATO -- the established democracies -- to make progress on arms control and new security arrangements that promise at last a whole and free Europe, including a democratic Germany, as a member of the Atlantic Alliance. And Chancellor Kohl's visit here this past weekend reaffirmed that the longstanding U.S.-German partnership -- a partnership of free peoples -- will continue to play a vital role in the new Europe.

Finally, the democracies of our hemisphere, led by President Bush, took a large step forward at the Cartagena Summit in an increasingly united campaign to win the war against drugs.

While all of this was going on, the welcome news of the release of Nelson Mandela reminded us of the worldwide sweep of the surge toward freedom. The President expressed the good wishes of the American people when he said that new hope had arrived in South Africa. We look forward to President de Klerk's continuing his policy of reshaping the future of his country in cooperation with all South Africans.

There can be no doubt that the United States has a major role in fulfilling the promise of this new age of democracy. As I noted in Prague, there are political, security and economic challenges to be overcome and new internatonal associations to be considered. The message I brought there and elsewhere was the message they all wanted to hear: As you travel the road toward democracy, as you face these challenges, you are not going to travel alone, the American people will be with you. We are committed not just at the outset of the journey but straight through until together we bring about a new world of peace and freedom.

I want to tell you now briefly what I believe we achieved and how it all fits into our larger foreign policy.

First, we reached a major agreement on the process whereby Germany can be unified in peace with security for all. About a month ago, it became clear to us that the pace of German unification had begun to pick up dramatically. East German elections, originally scheduled for May, had been rescheduled for March. The outflow of refugees from the East was continuing.

At the same time, unification could not take place in a political vacuum. After 40 years of division, the two Germanys alone cannot deal with all of the security or external consequences of their coming together. The four World War II occupation powers retain historic rights and concerns. There is also the larger context of the Helsinki Process -- the 35 nations who had agreed upon all-European security principles in 1975.

We therefore needed a consensus to act on this fast moving problem and history was not going to wait. The time was ripe to create an orderly process for German unification which would give due allowance to German freedom of choice, while reassuring the rest of Europe that due regard would be given to external aspects that might affect them. Before going to Moscow, I discussed the idea of such a process with my British, French and German colleagues. After further discussions in Moscow and then in Ottawa, what we call a "two plus four" formula was adopted. This formula calls for the two German states, after the March elections in the GDR, to agree upon a plan of internal unification. At the same time, the Foreign Ministers of the Federal Republic and the German Democratic Republic will meet with those of us from France, the United Kingdom, the United States and the USSR, to discuss external aspects of the establishment of German unity.

As we see it, the two plus four process has many advantages. It establishes the principle that unification starts with self-determination, the free choice of the German people. It makes clear that the Four Powers approve such a choice. The process recognizes that larger legitimate security interests are at stake in unification, and it gives a specific role to the Four Powers including the Soviet Union, in dealing with those interests. Finally, it contemplates that the issue will be reviewed as part of an overall assessment of political and security questions in the Conference on Security and Cooperation in Europe, the CSCE.

To sum up, we have a proper balance here between the rights of the German people and the security concerns of Germany's neighbors and indeed, of Europe as a whole.

There are, of course, many contentious issues to be settled. The President has made it clear -- most recently last weekend in his meetings with Chancellor Kohl -- that a unified Germany must be a member of NATO. That is the U.S. position, the allied position and the position of Chancellor Kohl and Foreign Minister Genscher. We have also indicated that, in deference to Soviet concerns, we support Foreign Minister Genscher's proposal that NATO's forces not be moved further east.

There are many other difficult matters to be explored and resolved. Nonetheless, we now have a forum whereby the unification of Germany on its most urgent, practical, people-to-people level can go forward with support of the Germans and the Four Powers, as we work together to iron out the appropriate security arrangements.

Second, we made a major breakthrough on conventional arms control in Europe at Ottawa. The Soviets essentially accepted the President's new proposal on force levels of 195,000 for the U.S. and U.S.S.R. in an expanded central region in Europe. In Moscow, the Soviets suggested that we have a common ceiling for all U.S. and Soviet forces of either 195,000 or, counting the 30,000 U.S. forces outside the Central Zone, a total of 225,000. I explained to President Gorbachev and Foreign Minister Shevardnadze why we could not accept the principle of symmetry. As a matter of simple geography, their withdrawals still leave Soviet forces in the European area of the Soviet Union, while ours, once withdrawn, are an ocean away. Even more significantly, as has now become abundantly clear, our forces are stationed in Europe by consent and our allies want them to stay there, while the allies of the Soviet Union want Soviet forces to leave.

In Ottawa, the Soviets agreed to asymmetry between U.S. and Soviet forces, insisting only that the implicit part of the President's proposal, the 30,000 U.S. troops stationed in Europe now outside the Central Zone, should become an explicit limit. The President approved and the result is an overall limit of 195,000 U.S. and Soviet troops on the Central Zone, it being understood that the U.S. troops stationed elsewhere in Europe will not exceed the 30,000 level.

The Soviets have also agreed with our contention that no CSCE summit on Europe security should take place without a CFE agreement. I must add, however, that a CFE agreement still faces some major hurdles, especially concerning aircraft.

On the President's Open Skies proposal, there was also tangible progress. The governments of the twenty three NATO and Warsaw Pact countries welcomed the open skies concept as a useful contribution to openness, arms reduction and arms limitation. Those attending the Ottawa Conference also agreed to some of the basic elements of an open skies regime.

Third, we laid the basis for a new more cooperative relationship with the peoples of Central and Eastern Europe, based on democracy, economic reform, new security arrangements and at their initiative, new regional associations. In a speech at Prague's Charles University, I said that while 1989 was the year of sweeping away the old dictatorships, 1990 should become the year of building new democracies. The United States was prepared to help in this process, which begins with free elections and the building of democratic institutions. I repeated the President's call for agreement by all CSCE members to hold periodic free elections. In addition, we would like to have observers from the CSCE states for each of the free elections promised throughout Eastern and Central Europe.

I made clear throughout my trip, and especially in Bulgaria and Romania, that any backsliding or rear-guard action against democracy would isolate the backsliders from our help. If the countries of this region are to flourish in freedom, then they must create free institutions and free markets responsible above all, to the people. That's what the democratic revolution is all about and that is why we are making our aid contingent on democratic reforms. This "democratic differentiation," as we call it, will not affect our humanitarian aid but will determine the extent to which we offer additional support.

In Prague, I was also able to tell the Czechs of our economic assistance package and of course, to urge upon them reforms leading to a free market economy. Clearly, the new leaders of Czechoslovakia, like those of Hungary and Poland, are also thinking of new ways to cooperate together. Drawing upon our previous experience after World War II in encouraging such cooperation, I expressed to the Czechoslovaks our desire to help their new coordination efforts, as President Havel proposed in Warsaw, in any way that we could. Such efforts may indeed be instrumental in turning this region of Europe from its historic role as the "lands between" into a new and vibrant grouping of its own.

Fourth, we advanced chemical and strategic arms control. A major original purpose of my trip to Moscow was to advance the START Treaty negotiations. Before we left home some questioned whether we would be able to conduct any business given the Communist Party Plenum then underway. So this is a good place for me to say a word about the political atmosphere we found in the Soviet capital. When we arrived, the difficult, even traumatic plenum was just ending. President Gorbachev emerged more determined than ever to double his bets on perestroika. He explained to us why a majority felt that the economic and ethnic trouble now besetting the Soviet Union could only be resolved by radical advances rather than by any turning back. That meant creating a more competitive party system, with the communist monopoly ending and a stronger Presidential system subject to popular will. It meant an effort at more radical economic change. And it also meant new arrangements with the republics, perhaps even negotiated treaties which spelled out rights and responsibilities.

In short, the Soviet leaders were anxious to forge ahead and we were therefore able to make much progress. First, as a joint communique issued in Moscow indicated, the President's proposal for an agreed framework for progress on chemical weapons was accepted by the Soviets. Both countries have decided to conclude a bilateral agreement at the June Summit to destroy the bulk of our stocks. And we are committed to complete multilateral negotiating on a chemical weapons convention that would reduce CW stocks still further over its first eight years and eliminate chemical weapons over the subsequent two years if other CW capable states adhere by that time. This framework is a major step forward. It provides a practical roadmap to reach the goal of eliminating chemical weapons.

Second, we also registered some considerable progress on START. As the President said, we hope to resolve all the major START issues by the time of the June Summit. We resolved the Air Launched Cruise Missile (ALCM) counting issue, in a way that gives us the discount we sought and allows our program to go forward. The issue of non-deployed spare missiles covered by the Treaty was also largely settled and we made progress on telemetry encryption. As for Submarine Launched Cruise Missiles (SLCMs), in a major development, the Soviets accepted our declaratory approach. By that I mean a politically binding statement outside the START Treaty made by each side, declaring the numbers they intend to build over a given period. So some of the toughest START problems have now been resolved, and the Geneva negotiations are on track.

Fifth, and finally, during the Cartagena Summit we and our democratic allies in this hemisphere took a major step forward in the war against drugs. Producer and consumer nations are no longer pointing fingers of blame at each other and arguing who is responsible for the drug problem. Now, we are joining forces to rid our hemisphere of this menace. The President's decision to attend the conference in person, despite threats, and President Barco's determination to press ahead, sent a significant message to the drug cartels: We will resist, we will never give in and in the end, we will win. Now, as the President has put it, we have the first anti-drug cartel. We have a unified strategy, expressed in the Declaration of Cartagena, which coordinates our joint attack on all aspects of the narcotics rackets -- economic, political and security.

To sum it all up, the past month has registered major advances in the President's foreign policy. We are measurably closer today to a Europe whole and free, living in peace and security. The difficult task of building democracy in Central and Eastern Europe has begun, with the especially promising elections in Nicaragua leading the way. We have taken important steps toward controlling chemical weapons and a START Treaty. And working with our allies, we are also moving forward in the war against drugs.

These are the up sides, the very encouraging sides. But I would be remiss if I did not also point out the down sides. After 40 years of communism, the democracies struggling to be born or to be reborn in Europe have wrenching tasks ahead. German reunification by its very nature will require patience, fortitude, creativity, and a good will to leave not only the Cold War behind but also the history of conflict which preceded it. We are still a good ways from home on various arms control tasks. Furthermore, I regret to say we still have strong differences with the Soviet Union over some regional conflicts, especially Central America. And of course, we all recognize that the drug war must still be won.

As I told the Senate Foreign Relations Committee one month ago, the old world of dogmatic dictatorships may be on its way out but the new world of secure, prosperous and just democracies is not yet here. It will not arrive automatically. The President has defined our mission very clearly, to consolidate the democratic revolution transforming our world. The message I brought throughout my travels and the message announced by the President from his very first day in office is the message people around the world want to hear: As you travel the road toward democracy, as you face these challenges, you are not going to travel alone, the American people will be with you. We are committed not just at the outset of the journey but stright through until together we bring about a new world of peace and freedom.

Prudent commitment of U.S. resources will be essential to catalyze the promising changes we see on the horizon. In my testimony before the Senate Foreign Relations committee earlier this month, I set out five challenges the United States will face in the 1990's: consolidating democracy, building free markets, helping the peace-makers, protecting the world against transnational dangers, and renewing our alliances. Meeting these challenges effectively will determine whether or not we are successful in advancing fundamental American values and interests across the globe. These are not "inside-the-beltway" issues of interest only to Washington insiders. Rather, they affect the quality of life of every American.

I ask your bipartisan support for the U.S. leadership needed to manage change in a way that protects our basic values and interests. And, I ask you in the Budget Committee to provide us the minimum level of resources we need to assure the effectiveness of such leadership.

OVERVIEW OF OUR FUNDING REQUEST

Foreign affairs and national defense together form the backbone of our national security. The President's budget outlines a scenario in which -- assuming present world trends continue -- our fundamental security requirements can be safeguarded in the context of a gradual decline in national defense spending. In this dynamic world environment, however, we must continue to invest judiciously in selected foreign affairs initiatives to ensure that our interests and values are protected into the next decade.

Hence, we view foreign affairs spending, not as a substitute for defense, but as a complement to reinforce the positive developments around the world which can facilitate further reductions in defense spending. We do not propose to spend the "peace dividend" before it actually exists. Rather, we seek to shape a world of reduced tensions where over time our security can be assured at a lower cost.

In the context of a tight budgetary environment, therefore, the Administration is requesting $20.8 billion in discretionary budget authority for International Affairs Budget Function 150 in FY 1991. This represents an increase of $1.7 billion or 8.9% over FY 1990 levels agreed to in the context of last year's Budget Summit. Outlays for FY 1991 are estimated at $18.2 billion, up from $14.6 billion the prior year, a figure artificially depressed by special inflows.

These sums are not large in relation to the stakes we have before us, or to the leadership position the American people expect us to play on the world stage. Indeed, our total foreign affairs request represents just 2% of the federal budget, equivalent to about 0.4% of our gross national product. And our levels are down substantially in both real and nominal terms from those over the 1985-87 period.

In most bilateral and multilateral diplomacy, America's ability to shape and influence the world stage has far exceeded our relatively modest budgetary contributions. But our ability to catalyze support for American policy can run aground if we cannot back up our positions with adequate resources of our own.

The returns from our modest foreign affairs spending in the post-War period have been impressive -- forty years of peace, economic growth, and -- most promisingly -- the new wave of democracy we see on the horizon. Let us not cut corners just as our long-standing commitments are paying off.

Our budget request for FY 1990 and FY 1991 can be divided into three parts:

First, six new funding initiatives, designed to respond to some of the most urgent requirements on the world stage;

Secondly, our core foreign assistance programs, essential to maintain the progress which is now bearing fruit in the flourishing of democracy and free markets around the world;

Finally, our foreign affairs operating budget, which supports maintaining our vital competitive edge in bilateral and multilateral diplomacy.

Funding Initiatives

We propose four new funding initiatives for FY 1991, plus two Supplemental FY 1990 initiatives -- one for Panama and one for refugees. All are integral to our ability to protect American values and interests into the next decade.

First, in support of the dramatic changes underway in Eastern Europe, we seek $300 million to promote democratic institutions, training and technical assistance, environmental initiatives, and to fund transitional economic support. Such support includes private sector development, trade and investment programs. On February 7, we submitted legislation to provide assistance to Eastern Europe and Yugoslavia, when the President determines that specific countries are making significant progress toward political pluralism, economic reform, respect for human rights, and a willingness to build a friendly relationship with the U.S. Deputy Secretary Eagleburger has just returned from Eastern Europe and will consult with Congress shortly to provide further details.

Second, we seek $500 million in Supplemental FY 1990 funds to support Panama's economic recovery. These funds comprise a portion of the comprehensive $1 billion program announced by the President to dismantle economic sanctions and stimulate a revival of business confidence. We are grateful for the bipartisan Congressional support of the first stage of this recovery plan.

Panama will need supplementary, one-time funding to restore financial stability and underpin a revival of private sector investment activity. Our Economic Support Funds would be used to help Panama regain its economic momentum following several years of mismanagement under Noriega. Together with our friends, including the Japanese, we are organizing a multilateral effort to help Panama normalize its relations with the international financial community, promote business credit, support public investment, and underpin public sector restructuring.

Third, we request $441 million in military, economic and counter-narcotics assistance to support the Andean countries in their struggle against narcotics cultivation and trafficking. This initiative is a central pillar of the President's Drug Strategy, and addresses a problem ranking high on our list of transnational challenges for the next decade. In the wake of the Cartagena Summit, the Andean leaders look to these resources to support our joint economic, security and political fight against the narcotics trade.

Our request includes $137 million in Foreign Military Financing to bolster the Andean governments in their efforts to maintain effective airlift and military capabilities for the interdiction of drug traffickers. The economic portion of our request -- $214 million -- will assist our friends in developing legitimate alternatives to the narcotics industry and implementing other structural adjustments necessary to sustain economic growth.

Fourth, we ask for your support in authorizing $888 million to clear U.S. arrearages to the United Nations, other international organizations, multilateral development banks, and U.N. peacekeeping activities. Actual payments to international organizations would be phased in over a five year period, as reforms continue. As we have noted with Congress, all payments of arrearages would be directed toward special activities worked out between the United States and the individual organizations.

The President feels strongly that a carefully structured arrears initiative is essential to maintaining U.S. leadership in these multilateral organizations. Over the next decade, we expect an invigorated U.N. to make greater contributions to peacekeeping efforts, refugee resettlement and transnational issues including narcotics, the environment and terrorism. To maintain our credibility and influence with these multilateral organizations as they address some of the greatest challenges of the next decade, the United States must live up to its solemn financial commitments.

Fifth, we look for your support in authorizing $270 million for construction of a new embassy building in Moscow. Last year, I promised that we would conduct a prompt review and submit our recommendations in our FY 1991 budget request. That review has now been completed. The Administration has decided that tearing down the existing uncompleted new structure and rebuilding it in place is the preferable approach. This option offers the most practical and timely means of obtaining sufficient, fully secure space at a reasonable cost.

Sixth and finally, we seek $70 million in Supplemental FY 1990 funding for urgent refugee admissions requirements. Last year, I indicated that we might need to revise our FY 1990 refugee funding request, and promised to consult with you on this issue. Primarily as a result of the continued liberalization of Soviet emigration policy, we will admit 27,000 more refugees this year than were provided for in our original request. We look to your support for the resources needed to welcome these refugees.

Core Foreign Assistance Budget

The six funding initiatives I cited above address some of our most urgent challenges as we enter a new decade. But we should not lose sight of the fact that our core foreign assistance programs - which offer basic support for our closest friends, allies, and Western institutions - have played an important part in assuring the stable world environment which has paved the way for those dramatic changes which we are responding to today. Our traditional bilateral and institutional relationships have served the United States and the Western democracies well over the past four decades. The relatively modest investments we are requesting for these basic programs address the key concerns of the next decade - promoting democracy and free markets, supporting the peacemakers, protecting against transnational threats, and invigorating alliances. They are equally important to our ability to ensure that American values and interests continue to be successfully advanced on the world stage.

Security Assistance

For FY 1991, our request for discretionary budget authority for security assistance programs (FMF, ESF, IMET, and peacekeeping) totals $8.5 billion. That marks a modest 4.4% increase over the $8.1 billion appropriated by Congress in each of the past three fiscal years. Our FY 1991 request, however, is less than amounts provided in FY 1985 through FY 1987.

In our single Foreign Military Financing account (FMF), we are requesting $5.02 billion in budget authority for all-grant military assistance programs, compared with the $4.83 billion appropriated in FY 1990. For our small but important International Military Education and Training programs (IMET), our request is for $50.5 million, up from the $47.2 million appropriated for the current year. In Economic Support Funds (ESF), our request is for $3.36 billion in grants, compared with $3.18 billion provided in the current fiscal year. Only our highest priority programs can be met at these request levels.

Our security assistance resources remain essential in complementing our diplomatic initiatives for promoting peace in some of the world's most troubled regions.

Nowhere have our diplomatic efforts been more intensive than in the pursuit of a negotiated solution to the Arab-Israeli conflict. Over the past year, we have sought to create a process that would break the decades-old confrontation between Israelis and Palestinians, and then broaden the effort into a lasting peace between Israel and the entire Arab world. And we have had results. Working closely with both Israel and Egypt, we have hammered out a framework for an Israeli-Palestinian dialogue in Cairo to discuss elections for Palestinians on the West Bank and Gaza. Elections offer a practical step that could launch the kind of negotiating process that could lead to a comprehensive peace -- one based on U.N. Security Resolutions 242 and 338, security for Israel and all states in the region, and the fulfillment of the legitimate political rights of the Palestinian people. We are now working intensively on the practical details of getting this dialogue launched. If the parties are prepared to approach this process in a practical and broadminded way, we can make progress.

To help the peacemakers broaden and strengthen their vital and ongoing efforts, we are again requesting $5.1 billion in combined security assistance for the two Middle East peace partners. That represents about 61% of our total security assistance request. These funds meet military modernization requirements and contribute to economic stability and development objectives.

The United States and Pakistan have enjoyed close bilateral ties for more than forty years. For FY 1991, we are requesting $573 million in total bilateral assistance for FY 1991, down slightly from the $588 million provided in FY 1990. This funding reflects the contintuing importance we place on this relationship, and on the key role Pakistan continues to play in supporting the Afghan people in their struggle for self-determination. Our funding supports Pakistan's return to democracy, encourages economic development, assists military modernization, and more generally promotes regional stability.

NATO is critical to our quest for securing peace and democracy in Europe. As the President recently stated in Brussels, the ending of the Cold War does not mean an end to the most successful alliance in modern history. We foresee NATO's vital military mission being complemented by a number of additional activities which build on its strength in protecting Western security interests. These include conventional force reductions, verification, and collaboration against threats to common security posed by new lethal technology and volatile regional conflicts.

For our NATO allies with whom we enjoy military base agreements -- Portugal, Greece, and Turkey -- we are requesting a combined total of $1.1 billion in military and economic assistance, or 13% of our total security assistance request. This compares with $992 million provided in FY 1990. Greece, Turkey and Portugal are vital to NATO's Southern Tier. As NATO develops new missions over the next decade, we will need to tailor our programs to meet changing requirements. It will remain critical, however, to support host government forces as a complement to our continued access to important facilities, including the Lajes Air Base in the Azores and military and intelligence assets in Greece and Turkey.

We fully support the Esquipulas, Tesoro Beach, and Tela accords as a lasting framework for peace in Central America. Uniting all these accords is a fundamental commitment to democracy and the democratic process. We continue to work with other nations to translate the promises in those agreements into a permanent reality -- whether through El Salvador's five elections since 1982, last Sunday's election in Nicaragua, or the Panamanian election last May that exposed Noriega's corruption to the entire world. We seek the support of all governments for peace and the democratic process in Central America.

To consolidate democracy and support economic development in Central America, we are requesting $739 million in total assistance for the Central American democracies. This compares with $655 million provided in FY 1990. As in prior years, over four-fifths of our request supports economic assistance, which is vitally needed to bolster living standards and promote market-oriented growth strategies, to create a climate for the expansion of regional peace.

To bolster another fragile democracy -- the Philippines -- we are requesting $450 million in total bilateral assistance, plus a second installment of $200 million for the Multilateral Assistance Initiative. This compares with $341 million in bilateral assistance and $160 million for MAI in FY 1990. President Aquino needs our help to implement economic and military reforms necessary to broaden the foundations of her democratic government's stability. Discussions also begin shortly on renewing our base agreements with the Philippines.

We hope to achieve agreement on continued use of these valuable facilities.

The key interests above -- together with the security assistance component of our narcotics initiative -- absorb 94% of our worldwide security assistance request. Budgetary restrictions leave us with only $511 million to meet vital security interests in Africa, the Middle East, the Caribbean, Thailand, and elsewhere.

We must face together the prospect of managing tight international affairs budgets for at least the next several years. When resources get tight, let us agree on vehicles to ensure that our less visible but highly essential security interests do not get shortchanged in the process. Let us together explore ways to achieve greater flexibility to respond to changing circumstances.

We would like to work together to avoid the difficult decisions the Administration was obliged to make in FY 1990 in the distribution of security assistance resources. In FY 1990, some 82 percent of our Economic Support Funds and 92 percent of our Foreign Military Sales financing were earmarked for specific country or regional programs. Because overall assistance levels were subsequently cut, we were unable to meet our broad foreign policy requirements with the residual which remained once the earmarks had been satisfied.

In ESF, we were left with some $570 million in unearmarked funds, which had to be stretched to meet some $950 million in justified program needs. In FMS, we had about $396 million to meet $659 million in program requirements. That gave us about 60 cents on the dollar to meet the needs of unearmarked programs across the board. The tough choices on how to distribute the shortfalls have some real foreign policy effects:

-- In Central America, where the economic costs of regional instability have been compounded by uncertainty in key export markets, especially for coffee, our level of Economic Support assistance to the four democracies fell by nearly 30 percent compared to FY 1989 levels.

-- In the Philippines, where much emphasis has been placed on meeting a commitment President Reagan made to the Aquino Government in 1988, we fell short by $96 million, more than a quarter of our combined ESF/FMS pledge.

-- In NATO, which will be vitally important in guaranteeing the security of a newly united Europe, we were unable to meet the needs of two critical friends. Our combined ESF/FMS aid to Portugal fell nearly 30 percent below our request, while our economic aid to Turkey fell 75 percent below our request.

-- In Africa and the Caribbean, Economic Support Fund assistance was virtually unavailable to support the important security and anti-drug efforts of long-standing friends including Kenya, Jamaica and the Eastern Caribbean nations.

International Development and Humanitarian Assistance

To meet urgent human needs around the world and foster greater reliance on market forces, international development and humanitarian assistance will continue to play an important role. The U.S. remains the world leader in this field -- through our direct provision of bilateral assistance, the emergency humanitarian aid we extend in crisis situations, and through the leadership position we take in refugee programs and international financial institutions. Indeed, it is largely through U.S. leadership that the world assistance community has embraced such important humanitarian concerns as first asylum for refugees. And it is greatly due to our leadership that the community continues to move away from traditional state-dominated development strategies.

For FY 1991, we are requesting $6.6 billion in budget authority for international development and humanitarian assistance, up from $6.1 billion actually appropriated for the current year. This increase will support our new Eastern European initiative, and enable us to clear U.S. arrearages to the multilateral development banks.

For the multilateral development banks, we are requesting $1.74 billion in budget authority, up from $1.47 billion in FY 1990. This increase will enable us to clear past arrearages to the World Bank and the Asian Development Bank. Included in our request is $1.06 billion for the annual U.S. share in the ninth replenishment of the International Development Association. This soft-loan window provides concessional World Bank financing to the poorest countries. Recognizing the need for shared responsibilities, we have agreed to contribute 21.6% of this IDA replenishment, down from our 25% share of the previous exercise. Up to half the IDA funds will be slated for Sub-Saharan Africa's most urgent development and economic restructuring requirements.

For our bilateral development assistance programs -- managed by the Agency for International Development -- we are requesting $2.89 billion in FY 1991 budget authority. This provides funding for the following programs:

-- $1.23 billion for the development assistance program, providing for basic needs in the areas of agriculture, population, health, energy, environment and education.

-- $561 million for the Development Fund for Africa.

-- $500 million for the Special Assistance initiatives for the Philippines ($200 million) and Eastern Europe ($300 million) that were described above.

-- $145 million for several smaller A.I.D. programs which respond to a variety of special needs -- including humanitarian disaster assistance, support for American Schools and Hospitals Abroad, and overseas housing programs.

Given the shortage of security assistance funds, multilateral and bilateral development assistance programs will continue to be our primary vehicles for promoting economic growth along free market principles in the countries of Africa. Our bilateral Development Fund for Africa is targeting such assistance to countries willing to undertake adjustment efforts to lay the basis for sustained growth. Currently, 28 African countries are undertaking formal structural adjustment efforts in close coordination with the IMF and World Bank.

Largely through assistance and admissions efforts, the United States continues to play a preeminent role in easing the plight of the world's refugees. We are making significant progress:

-- We improved our assistance to Soviet refugees by shifting our processing activities from Rome and Vienna to Moscow.

-- We are working closely with Congress on special immigration legislation to supplement our refugee programs.

-- We successfully negotiated an agreement with Vietnam to allow reeducation center detainees to resettle in the United States. Earlier this year, the first 750 former detainees and their family members departed Vietnam under this program.

-- We are working hard in multilateral channels to preserve the principle of first asylum for Vietnamese boat people, and to make a success of the the voluntary repatriation program from Hong Kong.

For FY 1991, we are requesting $476 million in budget authority for refugee activities. This compares with $438 million in total FY 1990 resources, including the supplemental funding request described above. These funds will support the admission of 95,000 refugees and 15,000 Amerasian immigrants -- the same number as the current year -- and enable us to assist the immediate needs of millions of additional refugees and displaced persons worldwide.

Other important components of our international development assistance request include:

-- $898 million in budget authority for PL-480 food aid, to support a $1.5 billion program level.

-- $181 million for Peace Corps operating expenses.

-- $225 million for voluntary contributions to international organizations including the U.N. Development Program ($109 million) and UNICEF ($50 million).

For international narcotics control assistance programs under the management of the State Department, we are requesting a total of $150 million in FY 1991, up from $113 million in the current fiscal year. Nearly all of this increase will be devoted to significantly expanding our coca control efforts in the Andes, with Latin American country programs increasing from $57 million to $87 million. The equipment and training we provide are essential to support interdiction and law enforcement operations against the major trafficking organizations.

Stretching the Assistance Dollar

The Administration is utilizing a wide variety of tools to promote an adaptive climate for world economic growth, to ensure that our assistance resources are appropriately leveraged to deliver maximum impact. Over the past year, we and our friends have worked together on a number of programs to lay the basis for sustainable growth in the developing world:

-- Our bilateral Development Assistance programs worldwide are increasingly targeted to those countries willing to pursue growth-oriented structural adjustment programs.

-- Our assistance programs for Eastern Europe are largely devoted to simulating private sector development, through the use of Enterprise Funds designed to catalyze entrepreneurial skills. We are working to ensure that a future development bank for Eastern Europe carries a similar orientation toward the private sector.

-- Our own dynamic economic expansion -- now into its eighth consecutive year of growth -- has provided mutual trade opportunities for U.S. exporters and those from the developing world.

-- Our commitment to an open world investment regime is attracting additional infusions of private capital to equity markets in developing countries.

-- Our strengthened debt strategy now incorporates debt and debt service reduction options. These provide a more solid basis for growth to countries undertaking economic reform programs. Mexico, Costa Rica and the Philippines already have taken advantage of these options. We expect a number of other countries to follow suit this year.

-- Our commitment to support strong, adequately funded multilateral economic institutions helps foster market-oriented structural changes in the developing world. The International Monetary Fund and the World Bank will shoulder additional responsibilities as Eastern European countries seek assistance in adapting to market mechanisms. Latin American countries with structural economic problems will solicit advice from these institutions on the stabilization programs essential to the preservation of their political stability.

-- Our commitment to a successful completion of the Uruguay Round of GATT trade negotiations in December 1990 is vital to ensure the continued expansion of trade and economic growth in the decade and century ahead. We are tackling head on a series of tough issues in Geneva -- bringing open trading rules and discipline to new areas such as services, intellectual property rights, investment-related trade measures and world agricultural production. The GATT talks remain of the highest priority to us. We are working hard with our trading partners -- developed and developing -- to ensure a strong set of agreements that benefit all nations.

-- On a bilateral basis, we are deepening trade relations with our closest neighbors and friends -- Canada and Mexico -- to jointly address some of the major challenges of the next decade. In Mexico, we are working in close partnership with President Salinas to broaden our mutual agenda. Through our Framework Agreement on Trade and Investment, we continue to encourage Mexico to deepen the extensive liberalization of its trade and investment policies now underway.

-- The President has announced a trade initiative for the Andean Region to promote economic growth by encouraging the expansion of legitimate trade opportunities.

-- We may be on the way to establishing a new regional grouping in the Pacific Rim, which can help identify and overcome barriers to more efficient flows of trade, capital, and technology, thereby enhancing world economic growth.

Over the past year, then, the United States has pursued an active agenda to ensure that the fruits of an open world trading an economic system accrue to those countries which are ready to participate on a competitive basis. We will continue to build on America's commitment to private enterprise, individual initiative, and a pioneering spirit to foster market-led growth in the developing world.

Conduct of Foreign Affairs

To meet the foreign policy challenges of the next decade, our nation will require a skilled, dedicated cadre of professionals to outwit, outwork, and outmanage our competition. As transnational issues including narcotics and the environment become more prominent, and the ideals of political and economic freedom spread, we must have the human resources in place to play a leadership role in the world.

In meeting this task, our foreign affairs personnel are our principal assets -- assets we must protect, nurture and invest wisely. Put very simply, in order for the United States to manage world change effectively and channel it in a positive direction, we in the foreign policy community must first manage ourselves effectively.

We have taken a number of steps over the past year to strengthen management:

-- We are implementing a set of proposals that will strengthen implementation of the 1980 Foreign Service Act, and are working to develop a more effective and broadly representative State Department. The measures we are taking should help us fulfill the commitment I made to this Committee last year -- to promote openness and diversity in the foreign affairs community.

-- We are examining the need to respond to the recent dramatic developments in the Soviet Union and Eastern Europe with additional overseas staffing. To the extent possible, these prospective needs would be reprogrammed from core resources.

-- We are adjusting our management approach to security in order to keep pace with changing physical and technical threat levels.

-- We are modernizing our worldwide information management system, and have maintained our commitment to a new worldwide telecommunications network.

For State Department operations and Foreign Buildings, we are requesting $2.2 billion in budget authority for FY 1991, an increase of $138 million over the current year, primarily to cover the increased costs of current operations. This is the minimal level of resources we need to fund our diplomatic and consular missions overseas as well as our domestic activities. Our request provides continued funding for our highest priority infrastructure project -- the Department of State Telecommunications System (DOSTN). It also provides funding to begin to improve the repair and rehabilitation of our valuable inventory of overseas properties.

And, as I noted above, we are also requesting $270 million for reconstruction of our Embassy in Moscow.

Funding for International Institutions

The President has emphasized the urgency of restoring financial viability to the United Nations and other international organizations. For FY 1991, we are requesting $695 million in budget authority to meet our current assessments to international organizations, plus an additional $464 million for the arrears initiative I mentioned before.

For international peacekeeping activities, we are requesting $91 million to meet our full funding obligations, plus $157 million for arrearages. Included in our peacekeeping request is $16.6 million to meet our assessment to the U.N. Observer Group in Central America (ONUCA), a newly created unarmed military observer group.

The U.N. is playing a crticial role in a number of world trouble spots where multilateral diplomacy has been shown to be effective. In the Iran-Iraq conflict, we continue to support the Secretary General's effort to fully implement U.N. resolution 598 through mediation between the parties. In Cambodia, we anticipate a substantial U.N. role in any eventual settlement agreement. The United Nations is also playing a constructive role in the resolution of the Namibia dispute. Cuban troops are being withdrawn from Angola and a U.N. team has supervised a round of free and fair elections in Namibia. We expect the Namibian Constituent Assembly to produce a constitution shortly, leading to full independence within several months. The U.N. is also playing a major role in advancing the peace process in Central America.

Public diplomacy will be one of our most valuable tools as we seek to encourage the worldwide tide of democracy and political pluralism. For the valuable work of the U.S. Information Agency and the Board for International Broadcasting, we are requesting $1.23 billion in FY 1991 funding. This level is down slightly from the $1.32 billion provided last year, largely because of the completion of the Israeli transmitter project.

CONCLUSION

As the last six months have clearly demonstrated, we are approaching a new age of democracy. Free elections have transformed the globe, from Nicaragua and Panama to Poland and -- in the very near future -- much of the rest of Eastern Europe. The primary responsibility will be in the hands of the new leadership of those countries -- to craft political and economic structures responsive to the will of the people. But they will also need help to support democratic structures, introduce free markets into controlled economies, or simply live in peace with their neighbors. Many of our traditional allies face similar if less dramatic challenges.

Our response to these dramatic events will determine whether we are prepared to reach out and meet the challenges of the next decade. This Administration believes that American values and interests demand that we respond positively to these challenges. The budget request we have put before you is essential to meeting that task.

Let me conclude on this note. In today's dynamic world, we must be flexible if we are to manage change successfully. We in the Executive Branch recognize that accountability and sound management are essential to the effective administration of foreign policy. I would therefore propose a kind of new code of conduct on foreign assistance. We should look to constructive consultation as the primary vehicle for achieving consensus on program objectives. Let us explore together ways to achieve greater flexibilty that serve everyone's interest, as we deal with these extraordinary times and changing priorities.

Secretary **Baker**. Would you like for me, now, Mr. Chairman, to answer your comments with respect to German unification or would you prefer that I stop there and wait for a specific question in that regard?

Chairman **Sasser**. Well, Mr. Secretary, I am going to have a question in that regard, so perhaps we could cover it there. We could kill two birds with one stone, we could eat up some of the question answering time and cover the subject at the same time.

Before getting into that though, Mr. Secretary, I suppose the question, the topic of the day, the topic on everyone's mind, is what has occurred in Nicaragua and what is going to occur there, in the coming days and weeks and months.

I read this morning, or I heard this morning, where the President-elect, Ms. Chamorro, has joined with outgoing President Daniel Ortega and called for the disbanding of the Contras, as a necessary precondition to a peaceful transition to a new government in Nicaragua.

The President of Honduras, as I understand it, also wants the Contras to be disbanded. The question follows, does the administration now favor disbanding the Contras?

Secretary **Baker**. Mr. Chairman, in the bipartisan accord which you took note of in your opening remarks, executed in March 1989, we specifically stated that our policy was to encourage the voluntary reintegration of the resistance, under safe and democratic conditions.

Those conditions, we think, are now rapidly being created; but this, of course, is a very complicated issue. It is an issue that has to be handled with some degree of sensitivity, and care. I think it is fair to say that as a result of the years of distrust and the years of disagreement and the years of warfare, that there are legitimate fears on both sides, that should be addressed.

We are confident that those fears will be addressed. As you know, under the Central America peace plan, both the UN and the OAS have been given a role in overseeing the voluntary demobilization of the resistance and we think that they can be very helpful in this regard.

And Cardinal Obando is one of the most respected figures in the country down there. He is trusted by the resistance and we would hope that he would be able to play a role in resolving this issue.

What I think both sides want to avoid and what we ought to avoid up here, in the political debate in the United States, if I might suggest it, is a standoff with each side demanding that the other go first.

The reason we have been successful in Nicaragua, as you pointed out, Mr. Chairman and I thank you for your comments, is because we got our act together up here, in the United States.

And we showed what can be done when you adopt a bipartisan approach to foreign policy. So the last thing in the world that we ought to do is to start a political debate, up here in the United States, about who ought to go first.

We have got to work this out. We think that with goodwill and with the support of the international community—the UN, the OAS and others—that this issue can be resolved.

And we think it will be resolved. The war is over, Mr. Chairman, in Nicaragua.

Chairman SASSER. Well, I do not disagree with what you say, Mr. Secretary. And I have long thought that if we could speak with one voice in this country, with regard to the problems of Central America, that those problems would resolve themselves.

And I think the fact that we did coalesce behind a united approach had a great deal to do with what ultimately occurred in Nicaragua.

I made a comment in my opening statement about the German question and I am concerned about Chancellor Kohl's apparent unwillingness to guarantee the present borders, between Germany and Poland.

And this has raised concerns, really all across Europe. We all remember only too well that two world wars started in eastern Europe.

I am concerned for a lot of reasons, not the least of which, is Germany's unwillingness to guarantee the present, or apparent unwillingness to guarantee the present borders of Poland would be driving Poland, and perhaps other Eastern European countries back into the arms of the Soviet Union.

And I do not attribute to Chancellor Kohl any sinister or mean spirited motive here. I suspect that he simply is reflecting what he gauges to be popular opinion in Western Germany.

And after all, here is a man running for reelection, I think, this year. But that, in and of itself, I think gives us pause. If he feels it would be unpopular, and an error to his political detriment if he were to make a statement guaranteeing the borders of Poland, it appears to me that sets up the proposition for conflict in the future.

And that is—what is the administration going to do about this, and what is your view on it?

Secretary BAKER. I would like to give you a direct answer to that. If I could go back for just one minute, though to this hemisphere, before we leave that completely and repeat something that I said at the leadership meeting at the White House meeting yesterday.

Chairman SASSER. Sure.

Secretary BAKER. We have seen what a bipartisan approach can do; we have seen what can happen when politics stops at the water's edge, with respect to Nicaragua; and I think it is extraordinarily important, Mr. Chairman, that we not divide on El Salvador.

We have an opportunity now, particularly now, to achieve peace in El Salvador and to achieve a greater respect for human rights, both. And I would hope that we, the executive branch and the Congress, and we, Republicans and Democrats, could come together on a bipartisan approach to our policy in El Salvador.

And I want to extend the hand of cooperation to the Congress in that regard as well, and tell you that I hope we can have some consultations, maybe looking towards the possibility of some sort of a bipartisan approach to some of the differences that exist now with respect to El Salvador.

On the question of German unification, Senator Sasser, let me say that I realize we are somewhat biased and prejudiced, but I do not share your view that we have not taken the lead on this issue, because we have.

To be very honest about it, we were the first out of the box speaking to the issue of German unification last year, when a lot of people were saying, gosh, this is too sensitive and we ought not to talk about it. The United States was saying, wait a minute, this has been a policy goal of ours for 40 years, we should not be ashamed of it and we should not walk away from it. It is a matter ultimately for the Germanys to determine; that is, the internal aspects.

But the external aspects have to take into consideration the concerns of Germany's neighbors. And so, in Brussels, last year, both the President and I laid out some principles that we thought should guide the question of German unification. We were the first country to do this.

This was followed by a communique by the European Community member nations in Strasbourg, basically embracing the same principles.

This was all done last year.

As the unification process was speeded up and it became quite apparent to the world that it was going to happen sooner than many people had anticipated, we, the United States began thinking about a mechanism or a framework for dealing with this question, at least the external aspects.

And it was our suggestion that consideration be given to a two-plus-four mechanism—the two Germanys and the four powers—the four powers, of course, having rights and responsibilities with respect to Germany retained from the period after the war.

We broached that to the Germans and we broached that to the Soviets, and we talked to the British and French about it, and that is now the mechanism that has been agreed upon as an appropriate mechanism to deal with the question of the external aspects of German unification.

We were successful in Ottawa a couple of weeks ago, in getting agreement by the six nations to this approach. So I would say that we have been in the lead since last fall and that we are fulfilling our role and our responsibilities in that regard.

And, now, I think it is clear as a result of the Chancellor's visit and as a result of these discussions we have had with others, that we are talking about unanimity with respect to the view that the united Germany should be a member of NATO, at least unanimity with respect to western countries.

So I think we are making some progress and I would suggest that we have taken the lead.

The position of the United States on the question of the Polish border is clear and it was laid out initially back there last fall when we put forward our principles for German unification. It is simply that we should respect the provisions of the Helsinki Final Act, which says that borders should be inviolable and that they should be changed only through peaceful means.

It is not up to the United States to state the position of the Federal Republic of Germany on this issue. It is up to the Federal Republic of Germany.

The Chancellor's position is simply this: he is the Chancellor of the Federal Republic of Germany, he is not the Chancellor of a unified Germany, and, therefore, he really does not have the legal authority to agree to or speak with reference to what should be the borders of a unified Germany.

Our view is that the current borders are inviolable. We understand the view that he has expressed and we understand that this is something that has to be worked out. The President said at Camp David in the press conference, following his meeting with the Chancellor, that it is the view of the United States that nothing would be done affecting the rights of other states without their involvement.

Does that mean that we are suggesting expanding the two-plus-four to a two-plus-five? No, it does not. And we are not, in fact, suggesting that.

At the same time, I think that the United States and others involved in this process are quite conscious of history. Our strong position, fully stated—and we will continue to state it—is that the current borders are and should be inviolable and should be changed only through peaceful means.

Chairman **Sasser**. Thank you, Mr. Secretary.

My time has expired. I would just add one other statement here and that is that I would like to see that statement transmitted to the Chancellor of West Germany, if it has not been already, in a unified fashion, speaking for the United States, and our British and French allies and perhaps, even the Soviets would like to make a statement along that regard too.

In other words, I would like, I think, ideally, it would be good if the Chancellor of West Germany should know that the two great powers and the other European allies are very much concerned about this situation and would like very much to see better assurances with regard to certain boundaries of Germany.

Secretary **Baker**. Mr. Chairman, it is our view, of course, as I think I mentioned in my answer, that we really should state the United States' position and it is up to the German leadership to state the German position. We should not be in the attitude of trying to dictate what the various parties to the two-plus-four mechanism should or should not say other than what the United States ought to say.

Chairman **Sasser**. My time has expired.

Senator Domenici?

Senator **Domenici**. Mr. Secretary, I would like to just take a few of my minutes and I hope that I do not use all 10, to talk about the issue of development of the economies in the evolving democracies.

Mr. Secretary, I am firmly convinced that the euphoria of today can quickly turn into an anguish, revolution, civil strife, if we do not find a way in conjunction with our allies to put in place, the best possible mechanism for these new democracies to develop their economic base.

I believe freedom and democracy without bread is an invitation to revolution and dictatorship. And, frankly, Mr. Secretary, things are happening so rapidly that it appears to this Senator that we do not have enough time to think through the concerted effort on the part of the free industrialized allies in sort of a blueprint for economic development and prosperity and change in these emerging democracies.

And so, Mr. Secretary, first, are you concerned about how difficult it might be for these countries to move from the form of economics they have to a decentralized, pluralistic, perhaps, entrepreneurial society and if you are, I am, I think it is going to be difficult.

And do you envision some new approach to American foreign aid and exchange of resources and free world exchange with these countries, different from what we have been doing in the past? And if you do, how do you propose to get from where we are to where we ought to be?

Secretary **Baker**. Senator Domenici, to answer your question, yes, I am concerned, as you are, that it is not going to be easy to move from 40 years of a centralized planned economy to a free market economy.

And there will be a period of adjustment that, in some instances, and in some cases, will probably require sacrifice and be somewhat painful.

So, I share your concern about that, and I am not sure that the system of foreign assistance needs to be changed. I think that we need to continue to push the increasing emphasis which we have been trying to put on building a private sector in these countries, both in our development assistance and our economic support funds, as well as our other assistance.

Senator **Domenici**. And our trade programs?

Secretary **Baker**. And our trade programs.

Now, I do believe that there is some potential here, with the change as dynamic as it is, for invoking other tools, or including other tools. I think that you used the term, a myriad of tools. I think that concept is a very good one and it is one that we have been looking at, as I think you know.

And it was interesting to me, during my travels through Eastern Europe, the extent to which some of those countries are not asking for aid; they are asking for trade, and investment, and that is what some of these Latin American countries that are moving towards democracy are asking for.

Now, that is going to require some political sacrifice up here. Are we going to be willing to give them greater access to our markets? You are going to determine that up here.

Will we take the necessary steps to increase market access for some of these countries, against some very politically powerful interests to the contrary?

The Czechoslovaks want English teachers. They are desperate for people to come over and teach English. I think there are some great opportunities there that will not involve foreign aid, or foreign assistance.

There are opportunities for people to help with technical assistance on how you move towards a democracy. And conduct of elections, conduct of campaigns, the Rumanians, the Bulgarians, they are very anxious for this kind of assistance.

This is all a part of what I would consider to be the myriad of new types of tools. We are taking a look at that right now, and hopefully we will come up with something that will not require massive new commitments of funds.

You mentioned volunteerism and I think that there is a substantial role for that in all of this. But I am concerned, just as you are, and I do not know how much sand is in the hourglass, for there to be results.

We know the situation in the Soviet Union, we are already engaged in some of these activities. We have been engaged for a year, as you know, in technical and economic cooperation discussions with the Soviets about how they move from 70 years of a centrally planned economy that does not even understand free market principles to some sort of a free market system or a price system and so forth.

Senator **DOMENICI**. Mr. Secretary, my last remarks are these.

Frankly, I agree with everything that you have said, and I do not think that the Federal Government ought to strangle diversity of activity, but I submit to you that there is such a desire to be helpful that we are approaching a point where from all over the United States, people and businesses want to do things.

I believe we need some umbrella that would, at least, coordinate and recognize and be some kind of a central clearing house for activities—not total and not to create homogeneity in each country—but I believe we are going to have cabinet members, and businesses and schools adopting activities and if we do not have some kind of priority list and focus, I am very fearful that you are going to have a bit of chaos in its early evolution.

I thank you for your answers.

Secretary **BAKER**. Thank you, Senator.

Chairman **SASSER**. Thank you.

Secretary **BAKER**. Mr. Chairman, before you go on, may I just make one final comment on the question that you posed to me?

Chairman **SASSER**. Certainly.

Secretary **BAKER**. I thought Chancellor Kohl's statement at Camp David, in which he said that we should not link the question of German unification with the question of borders, was very significant.

He has said no one is suggesting that we do that. He has further said, or the German Government has said, that they, too, respect the provisions of Helsinki, after all, they are signatories to Helsinki.

Chairman **SASSER**. Following our early bird rule, Senator Fowler would be next.

Senator Fowler?

Senator **FOWLER**. You are not the worm I am after, Mr. Secretary.

Mr. Secretary, it is always good to see you and from your days as Secretary of the Treasury to my days in the House and the Senate; I thank you for your public service.

Secretary **BAKER**. Thank you, sir.

Senator **FOWLER**. Mr. Secretary, going back to the question of German reunification and following up on Senator Sasser's questions, in reiterating the leadership of yourself and the President on the question that you were the first to bring it up via the recommendation of two-plus-four, success in Ottawa.

I noticed the one thing you did not mention was what I have come to categorize as extraordinarily bold agreement that you made with the Soviet Union on troop reductions.

That proposition, as I understand it, being that we have agreed to 195,000 troops each in the central zone, and a ceiling of 30,000 outside of American forces, outside of the central zone, and basically the Soviets have said, publicly, no troops, zero troops in the rest of Europe for themselves.

Am I understanding that this is a bilateral agreement between the United States and the Soviet Union?

Secretary **Baker**. That is correct.

Senator **Fowler**. With the agreement of——

Secretary **Baker**. May I add, too, that it was our understanding, Senator Fowler, that there was also an agreement that there would be no—at least not at this time—any suggestions for an overall limit on station forces.

We now see Grenyesky tabling something that might suggest otherwise. We are trying to get further elaboration on that, as we speak this morning. Because our clear understanding was that there would be no overall limit on station forces, pact-to-pact.

Senator **Fowler**. I understand.

The question that I—and I am coming really from my minor hat on the appropriations of military construction—I am trying to figure out how we can save money and one of the areas may be in military construction if we are going to have, of course, troop reduction in Europe.

We have the agreement of everybody, in the administration here and around the world that German reunification is unstoppable, accelerating.

What would happen if the price of reunification demanded by the Soviets was the removal of all forces from a reunified Germany—all of our forces and all the Soviet forces?

Seventy-one percent in a poll last week, of people polled in the Federal Republic, said that they wanted all foreign troops out of West Germany.

And of course, if that happens, you have said, and President Bush has said several times, we only will stay as long as we are wanted. If there was a demand that the price for reunification was the removal of all foreign forces, American and Soviet from a reunified Germany, where would they go?

They cannot go anywhere else in Europe, and they would have to come home. And as I read our agreement, that would result in a 90-percent reduction in American forces in Europe.

Is that——

Secretary **Baker**. And a 100-percent reduction of Soviet forces.

Senator **Fowler**. In the rest of Europe.

Secretary **Baker**. Correct.

Senator **Fowler**. We sometimes forget that the Soviet Union is in Europe. Is anything faulty about my analysis that if the Germans demand, if the price for reunification is the removal of all forces, I am correct, under the bilateral agreement with the Soviet Union, that there is no other place in all of Europe that our forces could be repositioned, is that not correct?

Secretary **Baker**. Well, Senator, the President's original proposal, which the Soviets accepted, they basically accepted, would require demobilization of forces.

And you did not mention that but I think that would be a part of the agreement.

Senator **Fowler**. Mr. Secretary, the agreement and again, correct me if I am wrong, all I have got is the report and it is one paragraph. I could read it, but I do not want to take the time.

Secretary **Baker**. Certainly.

Senator **Fowler**. That is 195,000 each in the central zone, and 30,000 ceiling outside of the central zone.

Secretary **Baker**. For the United States.

Senator **Fowler**. For the United States.

Secretary **Baker**. Right.

Senator **Fowler**. Zero for the Soviet Union, but the only place outside of the central zone, for the Soviet Union, is Rumania and Bulgaria.

There have been no Soviet troops in Rumania for 40 years, in fact, we asked the Soviets to go in there, and they would not do it.

Secretary **Baker**. Right.

Senator **Fowler**. Are you confident that the Germans will let us stay in Germany at the cost of delaying reunification?

Secretary **Baker**. The only point I wanted to make was that, first of all, to get to the 195, the Soviets are going to have to take down disproportionately far greater numbers than we are and they are going to have to demobilize just as we will have to bring ours back here.

Senator **Fowler**. Back here, but there is no other place in Europe for them to be?

Secretary **Baker**. No, that is correct.

We will have the Soviets in agreeing to this recognize the principle of asymmetry—that is, that we would have a larger number of forces in Europe than they would—and they accepted that principle.

Now, you are asking me if I am confident that the Germans would want us there forever. Nobody could ever make a statement like that, I think.

But the fact of the matter is, not only do the Germans now want us there, but all of the other Western European allies of the United States want us there. And quite frankly, a number of countries in Eastern Europe want us there, and I have said before that I am not totally certain that the Soviets do not want us there.

Who is the enemy? The President has answered the question; we get the question all the time. The enemy is unpredictability and instability. And there is a genuine feeling on the part of most Europeans that the presence of U.S. forces promotes stability and promotes predictability.

So I cannot give you an ironclad guarantee that they will want us there forever, but I think our position for 40 years has been and should continue to be—and it is the right position—we will stay as long as we are wanted.

That is the strength of our position, versus the Soviet position. We have been there by invitation.

Senator FOWLER. Mr. Secretary, my time is up and let me end by this. Would you please submit, if you can, for the record, what the contingency plans are for the United States of America if the domestic political situation in Germany demands the removal of all troops, and we accede to their wish, that would mean a 90-percent reduction under our agreement with the Soviets of all of our troops in Europe.[1]

Secretary BAKER. It would not quite be 90 percent, but it would be close to it.

Senator FOWLER. Then 85 percent, 305,000 troops down to approximately 30 to 35,000, under our agreement.

And I am saying that is what, under the treaty, under the bilateral agreement that is what we are facing.

Secretary BAKER. That is right. That is what would happen under——

Senator FOWLER. 4,000 refugees a day going from East Germany from West Germany. I do not know what was discussed at Camp David, but I know that Mr. Kohl is facing 500,000 refugees by the middle of the summer in West Germany, if they cannot get reunification to forestall it.

And I just have a feeling, like you and the President, of sometimes suspecting our friends over in the Soviet Union. We have seen your open skies proposal and they are now delaying that. Mr. Shevardnadze and Mr. Gorbachev every day say we cannot move too fast, let us see what is happening.

Secretary BAKER. Senator Fowler, this is amazing, you sound like a hard-line cold warrior to me.

Senator FOWLER. That has always been my reputation.

Secretary BAKER. Let me tell you what our worry is. Our worry, quite frankly, is not that the Germans are going to ask us to leave but that some folks up here are going to ask us to leave and they are going to ask us to go down below the levels that we think ought to be maintained.

Senator FOWLER. Neither one of us know what will happen.

Secretary BAKER. I will give you as good a guarantee that the Germans will not do it, as you can give me that the Congress will not do it.

Senator FOWLER. All I can tell you is that the Congress is not going to do it. The Congress is not going to ask for a 90-percent reduction in forces.

This is, I hope, a healthy discussion. If the price of German reunification is all troops out, and we have got 90 or 85 percent reduction in American forces, then I would just like to know what our contingency plans are in that event.

I thank you, Mr. Secretary and for the indulgence of the committee.

Chairman SASSER. I thank you, Senator Fowler.

Senator Symms?

Senator SYMMS. Thank you, very much, Mr. Chairman.

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[1] Material not available at date of publication.

And thank you, Mr. Secretary and I would like to also thank you for your tireless and energetic efforts on behalf of the President and the American people.

I guess as one Member of the Congress, I would share your concern because I have to say that when you read the media there seems to be such a lack of perception by the media of what is really happening in the world, and my perception of it is that we have had 10 years of peace through strength of support of freedom fighters from everywhere from Afghanistan to Africa to Central America and that capitalism works and communism is a failure and couple that with the information age and you are reaping great successes.

And I think that my concern is that the Congress will not recognize the importance of your statement earlier about a bipartisan foreign policy. President Bush enjoys the reputation of having a velvet glove, but he also has a steel fist under the glove, noting his recent liberation of Panama.

And I think that gave the people heart in Nicaragua to vote the way that they did. I think that we now, in the Congress, have an obligation to this administration to support you in efforts to negotiate the release of the army to civilian control now, to the elect, to the victorious election of the UNO party in Nicaragua.

And I would like to ask you two questions. One about if you want to comment on what our contingency plans are with respect to Nicaragua if you are unsuccessful in your negotiation. And I think that if Congress will stand behind you that you will not be unsuccessful. And I think that you will be successful.

But in Nicaragua, if Daniel Ortega, Thomas Borge and the other commendantes maintain control of the secret police and of the military, what your attitude would be towards the Contras of towards having General Powell and the JCS come up with another plan like they did in Panama, to put the people who won the election?

Number two, if the European borders are set in stone at the time of the Helsinki Accords, does that mean that the United States will be stuck with a policy that Latvia, Estonia, and Lithuania are stuck in the Soviet Union if they want to get out?

Secretary **Baker**. With respect to the latter question, Senator Symms, the Helsinki Act says that the borders should be inviolable unless they are changed by peaceful means. It doesn't say that they can't be changed; it says they have to be changed peacefully, which would mean that they would have to be changed, at least in my view, with some participation by those affected by the change.

With respect to your first question, I think that is a contingency that just isn't likely or frankly isn't going to happen. As I indicated in my earlier answer with respect to the questions of transition in Nicaragua, contra demobilization and so forth, I think that is all going to work out. It is going to take the active involvement of multilateral institutions and going to take the good faith efforts of all countries.

Senator **Symms**. Would you agree, though, that it is critical that we here in the Congress don't jump to overplay your cards so that you have a free reign that you can negotiate from a strong position?

Secretary **Baker**. I think I said I think it would be unfortunate, having seen the success of a bipartisan policy, if we now divided on this very complex and sensitive and delicate issue by drawing lines in the sand about who ought to go first. I think that would be a terrible mistake. I hope we don't do that.

Senator **Symms**. I hope so, too. Thank you.

Thank you, Mr. Chairman.

Chairman **Sasser**. Thank you, Senator Symms.

Senator Johnston.

Senator **Johnston**. Thank you, Mr. Chairman.

Welcome, Secretary Baker.

Secretary **Baker**. Thank you, Senator.

Senator **Johnston**. Secretary Baker, I have been a pretty good cold warrior through the years, but I am wondering now, with peace breaking out everywhere, what our United States interest is in giving military aid to Afghanistan and to El Salvador. And I don't ask that as an argument. I ask it as a question because I think it is a question that is on many minds. Now that we are ready to get our mustering out pay as cold warriors, why do we continue to give the aid?

Secretary **Baker**. Because we believe in democracy and because we believe in freedom, Senator Johnston. I won't speak to your question with respect to Afghanistan in this forum, but I will answer it with respect to El Salvador. We have a situation in El Salvador where we have five certifiably free and fair elections having been conducted down there. And we have a Communist insurgency that has been very active in trying to reverse the decision of the ballot box with bullets and bayonets. And it is important that we give the government the wherewithal to resist that armed insurgency that is seeking to reverse the decision of the ballot box with bullets and bayonets.

Senator **Johnston**. Well, I guess what I am asking, are we still worried about the so-called domino effect we used to hear about in El Salvador, in that El Salvador today and tomorrow El Paso?

Secretary **Baker**. We are less worried about it. We are less worried about it than we were before the events in Panama and the events in Nicaragua. Much less worried.

Senator **Johnston**. Now, you say you would not speak to Afghanistan.

Secretary **Baker**. No, sir.

Senator **Johnston**. You mean because of the sensitivity of it?

Secretary **Baker**. Yes, sir. Because of the classified nature of the subject.

Senator **Johnston**. All right. I would urge you to rethink that and reassure those of us who have supported you on both——

Secretary **Baker**. Senator, I would be glad to talk to you at length about it in an executive session if you want to do that. I am quite prepared to do it.

Senator **Johnston**. Well, I know that opportunity will come at some time in some committee, but I would simply state my own hesitation now on Afghanistan, particularly when so much of the arms apparently is going to Pakistani officials.

In the same vein, Mr. Secretary, we are increasing our military aid, other than Israel and Egypt, for military sales by 11 percent worldwide. Does that run counter to the demise of the cold war?

Secretary **BAKER**. Senator Johnston, I don't think the changes that are taking place translate immediately into parallel changes in the nature of our assistance. In other words, I think, frankly, as we see a decline in our defense budget here in the United States, military assistance becomes an even more valuable tool in addressing regional threats.

Now, you excluded Israel and Egypt, but that is a good example. The threat of regional conflicts in that part of the world has not receded one bit, if at all.

Senator **JOHNSTON**. May I interrupt?

Secretary **BAKER**. Yes.

Senator **JOHNSTON**. Because you sparked a question. As we bring troops home from Europe, the arms that they have, I understand the plan is to destroy those arms. I hope that is not so. If it is not, would that not be a good source——

Secretary **BAKER**. Very good.

Senator **JOHNSTON** [continuing]. For military aid to Israel and Egypt?

Secretary **BAKER**. Well, to perhaps other countries as well, it would be a very good source. Now, there are certain things we can do under treaty agreements and legislation, and other things we can't do. But the question of cascading equipment that is going to be embraced within a conventional forces agreement is a very good one and it is one we are addressing.

Senator **JOHNSTON**. Well, I am very glad to hear that.

Mr. Secretary, with respect to China, we read in the morning newspaper that the World Bank approved a 40-year loan, 1 percent interest, the first 10 years pay only interest for some agricultural product in northern China. And I think we voted for it in the World Bank. Understand, we don't control the World Bank. Do we know what kind of crops are involved there?

Secretary **BAKER**. I personally don't, Senator, but we could sure find out for you. That is a basic human needs loan now. It is not a project loan or a balance of payments loan. Until January, we opposed even basic human needs loan for China in the international financial institutions. Our policy now is to consider voting in favor of basic human needs loans, on a case by case basis provided they are brought up over a reasonable time period. But we will continue to oppose project and balance of payments loans.

Senator **JOHNSTON**. Well, Mr. Secretary, may I just state my own concern? First, because of the events in Tiananmen Square, this has been debated at great length; I just want to repeat it. I think it is the worst kind of policy in the world for us to be encouraging China, rewarding them. And, secondly, there is a limit to what we can do in foreign aid, and I can tell you that resistance to it is really building politically around the country. And this ought to be the first place we stop.

Thank you, Mr. Chairman.

Chairman **SASSER**. Thank you Senator Johnston.

[The following was subsquently supplied for the record by the State Department:]

Question. Mr. Secretary, with respect to China, we read in the morning newspaper that the World Bank approved a 40-year loan, one percent interest, the first 10 years pay only interest for some agricultural products in north China. And I think we voted for it in the World Bank. Understand, we don't control the World Bank. Do we know tht kind of crops are involved here?

Answer. The IDA credit is for agricultural development in Jiangxi province, a poor area of China where average per capita income is only $116. The project will help subsistence farmers in this underdeveloped region to transform their farming activities to a commercial basis. The Jiangxi loan has the goal of increasing small farmers' production of pigs and poultry, duck and goose down, fisheries and forest products, fertilizer, animal feeds, and tea. Tea is the only agricultural crop whose production the loan will affect.

Senator Kasten.

Senator KASTEN. Mr. Chairman, thank you.

Mr. Secretary, first of all, welcome and congratulations. I don't think it is by accident that democracy is breaking out across this world, and I think the ground work that the Reagan administration laid, of which you were a very, very important part, and now the work that this administration is doing and your work specifically as Secretary of State is bearing fruit. I think it is just a tremendous job that you are doing, and I thank and congratulate you.

I would like to start off with an article in the paper this morning saying, "U.S. to offer significant aid package to Nicaragua." It then says, "Nunn estimates cost at hundreds of millions of dollars," the chairman of the Armed Services Committee. The discussion goes on about how the administration is now considering a new aid package for Nicaragua, and I think that an aid package for Nicaragua is going to be passed. And I think an aid package to Nicaragua is something that we ought to consider.

At the end of last year, Lech Walesa was here to meet with you and, other administration officials, about our assistance to that country. What is Poland expecting from us? And where is that reflected in the budget?

Secretary BAKER. What is Nicaragua expecting, you mean?

Senator KASTEN. What is Nicaragua expecting? And then I said you were meeting with Lech Walesa. What is Poland expecting? What is Czechoslovakia expecting as a result of the discussions last week with Mr. Havel? What have we promised them? Is that reflected in the budget request, or will it require a supplemental? What have we discussed with West Germany with regard to economic assistance in the reunification of Germany? Does it involve grant dollars there? Is that included in the budget request? What have we discussed with Hungary? Are there dollars to Hungary that may be expected? Is that included in the budget request?

In this hemisphere, we obviously have ties to Panama. We have gone forward with an initial supplemental. But what are we going to do next year with regard to Panama, and is that included in the budget request? What about, as I said, Nicaragua, and what kind of help will we give to that country?

We begin in the Function 150 account, as you know, underfunding refugees. The supplemental that you are putting up for $70 million is not included in the base for next year. So we are down by about 70 for sure in refugees. Then we have underfunded the ExIm Bank probably by $120 million, maybe $130 million, and that is not included.

The point I am trying to make is that we have got a major problem in terms of the commitments that we are making. I was kidding someone the other day that I wished that the Secretary of State and the Assistant Secretary of State and the President and the Vice President didn't take trips because every airport speech is another discussion as to how much we are helping or how much we would expect to help different kinds of countries.

Flexibility is what you spoke of earlier today, and I note that Mr. Fitzwater yesterday said the first problem is getting the flexibility to spend the money we need. Flexibility is becoming kind of a code word for taking money away from the largest recipients. And I was pleased that you pointed out to Senator Johnston a moment ago that democracy isn't breaking out in a number of the countries that are our largest recipients right now. If you look at Egypt and Israel and Greece and Turkey and Afghanistan, we don't see democracy breaking out. In fact, we see chaos in Beirut; we see problems with the PLO; we see more and more problems with fundamentalism in the Islamic countries. So it doesn't seem that we are going to be able to get money from those countries, and the only answer is, it seems to me, that the pie has got to get bigger.

So my question to you is: Would it be workable to rework this year's budget, first of all? The budget that we have before us was compiled in November and December. Due to the events between November, and the present, would you send us a new budget. Or would it be workable to send a major supplemental? I note that someone referred to a new fund for emerging democracies in an article here, and there has been some discussion of that in the Foreign Relations Committee. Some of us have thought about a fund kind of geared to the flexibility that we have got in the Development Fund for Africa, for example, where we allocate a significant amount of money, and then there is flexibility with regard to its allocations.

It seems to me that we are bumping up against what has got to be the end of this zero-sum game that we are playing with foreign aid dollars. We simply can't do as we did in Panama, to take the money away from the African countries with the understanding that we are going to repay the African countries somehow, and the administration would blink when we took that money from some other place. We are running ourselves into a hole here, and I just wish you would respond to that set of problems.

Secretary **Baker**. Well, you have asked me a lot of questions, Senator. Which one is most important to you? Do you want to talk about earmarks? Do you want to talk about flexibility? Do you want to talk about making the pie bigger?

Let me simply say that there have been no discussions about economic assistance from the United States with respect to the question of unification of Germany.

The Poland-Hungary funding was included in the fiscal year 1990 budget. To the extent that funds are called for for Poland and Hungary in 1991, yes, it is included, I think, in the 1991 budget.

Czechoslovakia hasn't asked us for aid. They have asked us for trade and investment.

Nicaragua: obviously there are no funds in a budget that was crafted in November and December for what happened the day before yesterday in Nicaragua. But there should be little doubt, I think, that the United States should do and will be prepared to do what is required there. And we will find somehow—working together, Senator, we will find the funding.

With respect to refugees, we have got it in the Panama supplemental. I hope it is going to be enough.

Senator KASTEN. For this year, but it is not in the base for next year and it is underfunded——

Secretary BAKER. We will have to talk about the extent to which we might agree that it is underfunded. I am not sure that we could agree with that right now, but it may turn out, if things continue the way they have in the past, maybe that will turn out to be the case.

Let me say on the question of earmarks and flexibility, the position the administration is taking is not politically popular. We know that. We can count votes. But we also know that it is not in the national interest of the United States of America to lock ourselves into levels year after year after year that don't give effect to changing foreign policy priorities and that don't give effect to the Panamas and the Nicaraguas and the Eastern Europes that happen from time to time. So we need to find ways to deal with that. You mentioned making the pie bigger. That would be a good way to do it if we could do that. Maybe there would be a discretionary fund that you would be willing to consider giving the President of the United States so that we can respond to these changing priorities as they take place. Maybe we would have to consider shaving earmarks across the board, not directing it at any particular country or countries, but giving us some flexibility to deal with the issues that are very, very important.

So all I can say, Senator, is that I agree with you that the situation is very tight. We need to continue to work together and work together very closely, and we are quite prepared to do that with you and others up here who will have a major say in the question of allocation of foreign assistance. And I know you will in your position as a ranking member on Foreign Ops Appropriations. But it is a major problem. I think you have pointed out that it is a problem. But we need to deal with it, and we need to address it.

Senator KASTEN. My time has expired, but we can't deal with this problem, I don't think, when you look at 1985, $20.8 billion in Function 150; you look at 1990, $14.7 million in Function 150; and you look at the changes in terms of the needs across the world. We are not adequately funding a number of people who are following our lead and trying to work toward a free economy, trying to work toward an open political process. We are promising them things, or they are expecting things of us and we are not delivering.

Secretary BAKER. That is correct, Senator. I couldn't agree more.

Chairman SASSER. Senator Sanford.

Senator SANFORD. Thank you very much.

Mr. Secretary, thank you for being here and for giving us this comprehensive statement. I look at the budget, since this is the Budget Committee and we will no doubt have an opportunity in the Foreign Relations Committee to deal with policy to a greater degree. One of the things that seemed to be promising last year was the Woods report on AID that I thought was a very frank evaluation of some of the shortcomings. Unfortunately for the country, we could probably extend that and say accurately unfortunately for the world, he died before really having a chance to carry forward some of his changes that at least were intimated.

It appears to me that we have not made any adjustment in respect to those recommendations. We have a new director that will be coming aboard very shortly. We held hearings for him yesterday. Is there going to be any effort to re-evaluate and to make these programs more effective than they have been?

Secretary **Baker**. Senator, we worked last year on that to some effect over on the House side, as you know, and we were not able to achieve the same results over here. We—"we" being the State Department—support I would say practically all of those recommendations, and we certainly support the general thrust. And we will continue to do so; I am quite confident that the new director of the agency will be supportive of those as well.

Senator **Sanford**. Well, I talked with him at some length about what I thought the shortcomings were, and I just hope we don't lose that thrust now. Of course, nothing in the budget indicates that we have kept our attention on that part, and I hope we will keep our attention on it.

I suppose that it is fair to say that that helps make for you the argument that I don't mind helping make against earmarks. But we don't need to tie down too much in the way of aid if we are going to have the opportunity to improve that process and the effectiveness of it.

Secretary **Baker**. That is absolutely correct. Of course, Senator Kassebaum has a bill that addresses that particular problem head on. And lest there be any doubt, I will restate what I said at the leadership meeting at the White House yesterday, and that is that we understand the politics of this but we, the administration are in a very tight bind. And we are unable to respond, we think, in a manner that is consistent with the national interest. Senator Kasten has made a very persuasive case—he has articulated it very well, I think. But lest there be any doubt, Senator, we would support the elimination of all earmarks.

Senator **Sanford**. I don't have any problem with that. I simply hope that we can be more creative in dealing with our aid funds, and I would hope that doing away with earmarks might also permit the transfer from military aid to nonmilitary aid where that is appropriate. And I think it is beginning to be appropriate in several places.

I certainly agree with the general theme that Senator Kasten presented. We do have problems. We aren't funding to the extent we have in the past. We are neglecting people that need our help right now to gain the kind of stability. So however we get that done, whether by enlarging the pie or enriching the way we serve the pie.

It brings me now to Nicaragua. Of course, there is a great feeling now that we should do something for the people of Nicaragua. But I would like to put in a word for the people of Honduras and the people of Guatemala that have suffered all of this time and have struggled through these past years to have a free society and free elections. I think it would be a great mistake to focus on one country in Central America at this time. And I would hope that in removing earmarks and leaving the State Department free to develop a policy, that we could use that flexibility to join all five of those Central America nations together in a combined effort of development, and not to get carried away looking at just one country that has most recently emerged.

Secretary BAKER. Senator, I don't disagree with that at all, and I would even venture so far as to say that had it not been for particularly Honduras' commitment to freedom and democracy, we might not find ourselves here today.

Senator SANFORD. Honduras is still, even compared to Nicaragua, the poorest country.

Secretary BAKER. That is correct.

Senator SANFORD. And I simply don't want us to lose our focus on stabilizing all of Central America. I think the time in history has come when that can be done, and I don't want us to get our eyes off the right ball.

Secretary BAKER. You know, when the time came to allocate the few remaining unearmarked dollars in fiscal year 1990, it was just very sad to see that those countries that do not have a constituency or supporters up here lobbying them for earmarks don't get anything. And that happens to a great degree in Latin America, and it happens, as Senator Kasten has just pointed out, to a substantial degree in Africa. And these are some of the most deserving nations that we deal with.

Senator SANFORD. Thank you very much.

Thank you, Mr. Chairman.

Chairman SASSER. Thank you, Senator Sanford.

Senator Grassley.

Senator GRASSLEY. Thank you, Mr. Chairman.

Mr. Secretary, I would like to raise with you an issue that involves the State Department's IG report last month on the Bureau of Narcotic Matters, and this was something that I brought up with OMB Director Darman when he was here earlier this month. I expressed my concerns about the report to him, and he likewise acknowledged the problem and expressed concern.

What is significant about this report is its very strong language. It is not often that an IG report has such harsh criticism, and this one pulls no punches. For the record, it says that the INM has been poorly managed and that there are serious morale and cultural problems.

Now, I know, Mr. Secretary, that you are very concerned about this problem, and I am sure you are going to do all you can to give it the attention it deserves. This is, after all, the lead agency on the overseas half of the antidrug effort. Now, despite these problems, the proposed budget increase for INM this year is, I believe, 30 percent. There appears to be deeply rooted cultural problems, in which case they are not likely to be improved in just 1 year. So that brings me to this 30 percent increase.

It suggests that there is still a lot of work that needs to be done to correct INM's problems. In other words, there will be maybe a lot of correcting needed before huge increases like this can be justified and spent efficiently. So my question, given the poor track record by INM—and I say that quoting the IG report, and it is graphically portrayed there—shouldn't we be concerned about putting too much money into it, and what assurances maybe you are prepared to give us that conditions are improving?

Secretary **Baker**. Well, I think conditions have improved, Senator Grassley. That inspection or investigation began quite some time ago, as I understand it.

Senator **Grassley**. Yes.

Secretary **Baker**. We took some steps——

Senator **Grassley**. Let me correct something there. You are right. It does go back a long time. But recent conclusions in it—and the report is very recent—were recently drawn. So don't say that it is all based upon a lot of past history. There is a lot of recent evidence in there as well.

Secretary **Baker**. It is a mix. I guess the point I was trying to make is that the IG report is a mix of observations that they reached when they began the investigation and some since we have been focusing a bit more on INM and its responsibilities.

One of the things you mentioned was a morale problem. I daresay that the 30-percent increase in resources will help that morale problem considerably. I have spoken myself in two instances recently—one speech I made in Houston, TX, and one speech I made at the United Nations just a week ago—about the importance of the narcotics issue and the priority that that is now receiving as a major foreign policy priority of the United States. And we really are focusing on it, and I think the Cartagena drug summit is a very good example of that.

I think Mel Levitsky, who is the new Assistant Secretary in there, Senator Grassley, is doing an excellent job. Part of that report, as I understand it, was very critical of the air wing efforts, the management of the air wing. And we have created a new office to manage the air wing's activities, and we think hopefully that will go a long way toward curing the deficiencies in the IG report.

But you asked me if I think we should continue the budget increase. I certainly do. And it was a strong recommendation not just of INM and the Department, but also of the Office of Drug Control Policy in the White House.

Senator **Grassley**. This administration has laid out a management framework to carry out its policies and activities through what is called management by objective. The IG report says that the goals and objectives are ill defined—that would be on page 1, paragraph 4—and that targets and performances and milestones of activity are unrealistic. As a manager by objectives, you are well aware that it is important not only to establish objectives and efficiently allocate resources to them, but also to have what are called measures of merit to track success and progress. These are things I am going through also with the Secretary of Defense on some other matters, defense reorganization. But that means that objectives themselves have to be quantifiable.

Can you assure us that objectives have been clearly identified in INM that resources will be efficiently allocated, and that performance is being tracked empirically so that we as a committee are comfortable with this kind of an increase if we decide to give a 30-percent increase?

Secretary **Baker**. I would be surprised if it hadn't been, Senator Grassley, but I can't tell you from my own personal knowledge that each and every one of those things have been done. But I will tell you I will check on it immediately after this hearing and will respond to you in writing.

Senator **Grassley**. Mr. Secretary, let me conclude by saying that I would like to work with you and your staff during our deliberations this year on this committee and review new initiatives at INM, and hopefully we will be able to work these problems out as we observe and work with you to see if management by objective is carried out in a quantifiable way. We all agree that this area of winning the war on drugs is a very important subject, and it needs not just your attention and priority, but it also needs ours. And I think that you can find us helpful up here on the Hill, Mr. Secretary, in accomplishing that goal.

Chairman **Sasser**. Thank you, Senator Grassley.

[The following was subsequently supplied for the record by the State Department:]

Question. Can you assure us that objectives have been clearly identified in INM that resources will be efficiently allocated, and that performance is being tracked empirically so that we as a committee are comfortable with this kind of an increase if we decide to give a 30-percent increase?

Answer. The INM policy and program managment system is a comprehensive approach to policy formulation, program planning, budget formulation and program implementation. The system was designed to demonstrate INM's capability to plan and manage its programs effectively and communicate its goals and objectives to the Department, OMB, and the Congress.

INM begins the process by transmitting to the overseas posts specific global and country policy guidance that builds upon the National Drug Control Strategies and requests program planning and budget requests based on both Department guidelines and national strategies. Each Spring, the posts submit budget requests and participate with INM in an overall resources assessment and strategy planning session that is designed to strengthen the justifications, discuss current problems and assess past performance. Based on the enactment of authorization and appropriation bills, the posts are then requested to submit detailed post operating plans which require each post to develop targets of performance, milestones of activity and specific measures of effectiveness against which progress can be assessed. The Bureau reviews these plans as well as draft letters of agreement which ideally include project objectives, targets of performance and measures of effectiveness. Progress against the milestones of activity and financial obligations serve as a basis for quarterly reporting until project objectives are achieved and/or funds are totally expended. The targets of performance and the measures of effectiveness are used by both the post and the Assistant Secretary to evaluate program success on an annual basis. In this way, both the Bureau in Washington and the operating field element have a common framework for tracking progress and associating financial obligations and expenditures. Of course, the quarterly reports highlight problems and success to policy level officials early enough in the fiscal year to facilitate appropriate project and financial adjustments and increase the probability of program success.

The committee should rest assured that the 30 percent increase in fiscal year 1991, most of which is designed to support the counter-narcotics Andean initiative, will be related to detailed objectives and will be designed to accomplish targets of performance. The Department has coordinated the drafting of overall Andean implementation plans that will be translated into project agreements that can be monitored. In this way, we can better ensure that the taxpayers' resources are used in a cost effective and efficient manner.

Chairman **Sasser**. Senator Wirth.

Senator **Wirth**. Thank you very much, Mr. Chairman.

Mr. Secretary, I am pleased to have you here. I read with interest the speech that you gave the Governors on sort of a redefinition of global security, and I must say I very broadly agree with what you were saying in that the kind of threat and approach that we ought to be taking and the leadership that the United States has to take, you were right on the button. I have been very pleased as well with your statements on global warming. In February 1989, I believe, I think that was your first speech as Secretary, and also the President's statements that he wants to be the environmental President. So we are setting a new tone. Obviously, some of us would like you to move more aggressively and more rapidly, but in any case, we appear to be moving in the right direction.

One of the issues that I think is very troubling is the issue of population. I am sure that you have seen the most recent estimates that world population increases are now projected to be going up much more rapidly than we had thought in the past. We currently are at about a 5-billion person level in the world; we are going to double quite rapidly to 10; and probably by late in the 21st century will be at 14 billion people.

If you tie this in—which was not mentioned in your speech to the Governors. But if you tie this into your redefinition of national security, clearly the security interest of the United States, our interest, as you point, out, in encouraging stability, the problems of environmental refugees, the problems of environmental degradation, are going to increase very, very rapidly if the population increases this rapidly as well. I think we would all agree on that, wouldn't we? I think those assumptions are pretty clear; you know, that we have an obligation to try to level off the growth in world population.

Secretary BAKER. Well, I don't know whether I can agree with you, Senator, that the mere increase in population will be transformed into environmental degradation. I am not sure that——

Senator WIRTH. I mean, if we are looking at a globe of 14 billion people at the end of the 21st century, you certainly would not suggest that, if there is something we can do about it, that that is an acceptable outcome, is it? That we ought to do nothing and just let that happen?

Secretary BAKER. Senator, let me say that I really haven't gotten into the population issue in that depth and that detail. Therefore, I am going to be reluctant to give you a yes or no on that. I frankly haven't studied it, It is not something that I have spent much time on.

Senator WIRTH. Well, sir, let me suggest that you should. If, in fact, we are in this world concerned about overall stability, if the world has changed and our relationship with the Soviet Union and the superpower relationship which defined what we did for 40 years, it has dramatically changed. And if, in fact, as you pointed out to the Governors so well, our national security interests have changed, and an environmental security threat is one that we ought to be focused more acutely on, certainly the notion of a dramatic population increase with very, very sharp demands that that is going to make on natural resources, the impact that is going to have on global atmospheric change, the pressures that is going to put on water and food resources—I mean right down the line—then you start to think about the issues of environmental refugees which are going to be coming or are already upon us. We cannot, I think, discuss any kind of global change without very sharply focusing on population.

Unfortunately, it ends up being a footnote or the appendix or at the end of any discussion, or people say, well, I really don't know much about it. And that is the problem. The reason I wanted to get into this was to urge you and maybe ask your people to get a focus on this much more dramatically. Because this issue, I think, is going to drive just about everything else that we think about, if not now, in a very, very short time.

Secretary BAKER. I will be glad to do that. We are having a new Assistant Secretary for Oceans and International Environmental, and Scientific Affairs, hopefully confirmed in the near future, and one of the first things I will ask him to do is to give me a piece of paper on the subject, Senator. I am sorry. I just am not an expert on it, and I am not prepared to say that 14 billion is going to create——

Senator WIRTH. I understand. Well, 10 billion or whatever it is. Even 5 billion, we are in some very significant trouble.

Secretary BAKER. I am not sure how valid the assumptions are that we will be at 14 billion. I can't speak to that at this moment.

Senator WIRTH. Even if we were at seven, even if half of that—you know, the UN suggests that we are at least going to be at 10, and that has been the assumption that everybody around the world has been operating on for a long period of time.

The U.S. contribution to family planning services has decreased very sharply since the mid-1970's. Just at a time when it would appear that we in the world have to be doing a great deal more, our contribution has decreased very significantly. You know, I would assume, just as you have not really focused on the population issue, the role of the U.S. budget in that area has not been part of your focus either.

Secretary BAKER. Well, that was part of my focus when I was the White House Chief of Staff back in 1984, and as a matter of fact, the Mexico City policy, with respect to which we may be in disagreement, was sort of hammered out around the table in my office. So I do have some familiarity with respect to that particular policy, which remains, of course, the policy of the Bush administration.

Senator WIRTH. Well, I think I would argue that that policy has, in fact, had just exactly the opposite as you all intended it to do; that by dramatically cutting family planning services, the ironic result has been probably to increase the number of abortions around the world very significantly.

Secretary BAKER. I am aware of that argument, but I obviously don't agree with it.

Senator WIRTH. Let me go back very briefly and ask you one follow-up on the discussion that Senator Nunn had yesterday in the Armed Services Committee with the Secretaries of the Forces, and I think it was brought up earlier this morning by Senator Fowler. That is the Ottawa agreement.

Did we come out of Ottawa with the same policy that we intended to come out with? Or did we misunderstand the mix between 195 and 30 and end up, in fact, with a policy significantly different from the one that we had hoped to come out of Ottawa with?

Secretary **BAKER**. We came out with exactly the policy that we intended to come out with after extensive discussions, Senator, among the President's top advisers and the President.

Senator **WIRTH**. If, as a price of reunification or as politics in Germany would demand, the new German Government were to ask the United States to withdraw all of its troops from German soil, what would that mean we would be left with in terms of numbers of troops in Europe?

Secretary **BAKER**. We would be left with 30,000 troops in Europe.

Senator **WIRTH**. And that was our goal going into Ottawa?

Secretary **BAKER**. That was a conscious decision that we made at Ottawa, Senator, after, as I said, discussion among the President's senior advisers and the President himself. It was, in fact, what we agreed to in order to get the Soviets to agree to the President's manpower proposal, which, of course, will require them to take down many, many times the number of troops that we will reduce, and, of course, establishes the principle of asymmetry—that we will be permitted to retain more troops in Europe than the Soviet Union will, and that we are not linked. It will not be a one-for-one reduction in any sense of the word.

Senator **WIRTH**. We could end up in a situation, could we not—to see if I understand this—that if the Germans asked all United States troops to leave German soil, we could end up with 30,000 troops in Europe because of our agreement on the 30,000. Where, then, would the Soviets be if that were to occur? If we were to withdraw all of our troops from Germany at the request of the German Government, what would the Soviet troop level at that point look like?

Secretary **BAKER**. Well, the agreement requires, as I mentioned to Senator Fowler, demobilization. I can't give you their figure with respect to what their overall troop strength would be. But what they withdraw pursuant to agreement with us would be demobilized. The large disparity with respect to the forces that are going to be withdrawn initially will be demobilized on both sides.

Senator **WIRTH**. They would have to withdraw that same 195,000 troops? If the German Government asked us to withdraw all the troops, would the Soviets withdraw all those troops from Europe as well at the same level, too?

Secretary **BAKER**. The exact reverse is more likely, Senator. That is a hypothetical that I just don't think will ever happen. We have been there for 40 years by invitation. The Soviets have been there by force. It is a great deal more likely that the Soviets are going to be asked to leave by the East Germans or by the unified Germany, if they should be there as a part of any successor state for any reason. It is much more likely they will be forced out or asked out than that the United States will be asked out.

As I told Senator Fowler, I hope we will get a commitment from the Congress that they will support 195,000 in the central zone and an additional 30,000 in Europe. I hope nobody up here is going to be coming at us and asking us to take it down below that. There is a greater risk of that, in my view, than that the Germans are going to ask us to leave.

Senator **WIRTH**. Thank you, Mr. Chairman.

Chairman **SASSER**. Thank you.

Senator Boschwitz.

Senator **Boschwitz**. Thank you, Mr. Chairman.

I agree with you, Mr. Secretary, that there is a greater chance that you are going to have pressure from up here to reduce those troop numbers than you will have pressure from the Germans.

I might tell you that my head swirls on the whole business of international affairs, and every time I seem to be settling down something new comes along. In December it was Panama; in January, progress on conventional arms, and so forth. In February it was Nicaragua and Nelson Mandela. What do you have in store for us in March? Any predictions in that regard? I like the smile, though.

Secretary **Baker**. No predictions.

Senator **Boschwitz**. No predictions. But fast movement normally begets other fast movement.

What do you think the future holds for Cuba's Mr. Castro?

Secretary **Baker**. I said earlier, Senator Boschwitz, that I think we have within our grasp the goal of an all-democratic hemisphere. That has been our stated policy goal and objective for some time. If we can see the insurgency in El Salvador achieve a peaceful political settlement with the government there, and the transition in Nicaragua goes the way we hope and expect that it will go, then we will be very close to our goal of an all-democratic hemisphere. The sole exception will be Cuba.

Senator **Boschwitz**. Mr. Secretary, I am not prepared yet to receive the mustering-out pay that Senator Johnston spoke about. He said that cold warriors are now getting their mustering-out pay. It is not quite that clear to me, and I am not prepared to receive it yet. He also spoke about military hardware in Europe that could go now to some of our friends elsewhere. I would suggest that could cut two ways; that military hardware that the Russians have in Europe may show up in areas that would not be particularly desirable from our standpoint.

But I do agree with Senator Kasten that we need to increase the foreign aid budget. There, again, I must tell you I disagree with my friend, Senator Johnston, who said that resistance to foreign aid is breaking out all over the place. There has been resistance over the years. But I go almost every weekend to a series of hearings, and seldom do I hear opposition to foreign aid. I hope the administration will aggressively seek additional dollars. I think that is a far more realistic approach than trying to change earmarks. Earmarks really came into being because, as the numbers went down, as Senator Kasten spoke about earlier, countries rushed to get representation here in Washington to prevent themselves from being caught short because of the reduction in foreign aid, even as our needs around the world grew. So I will be a supporter of increases in that budget function.

Let me talk for a moment about how much aid is needed in Central America. I think that billions of dollars of capital had fled Central America that now, perhaps, if there is some peace and stability, will be attracted back. I wonder if you would comment on that, and that includes Honduras and Guatemala, El Salvador. I always felt sorry for President Arias of Costa Rica. He wanted to develop his country. He could only serve one 5-year term, and with a neighbor like Nicaragua, nobody wanted to invest in Costa Rica. It wasn't stable enough.

Have you considered the billions that are in Miami banks and other banks, and what impact can that have?

Secretary **BAKER**. I think there is a good chance, Senator Boschwitz, that we can see a return of flight capital to a number of countries down there as the political situation stabilized in Central America. It is going to be important, though, that they adopt the economic reforms that are necessary to draw that capital back. There is going to have to be good legislation adopted with respect to investment, and the preservation and protection of that investment against political risk and other associated risks, including inappropriate economic policies.

Senator **BOSCHWITZ**. I would suggest that getting back the flight capital is probably more important than the aid that we send, though our aid is not unimportant; and that somehow the two should be tied, so that we do not seek to substitute for the billions that have abandoned that area.

I think that that is the real promise of Central America: the recapturing of——

Secretary **BAKER**. Capital flight.

Senator **BOSCHWITZ**. You bet. Because it is also associated with people, people who are used to investing and doing business. I agree with you that not only does the political stability have to be there, but the economic system has to be in place as well.

I would like to go to a different hemisphere for a moment, Mr. Secretary, and talk about New Zealand. With respect to the Government of New Zealand, is it the State Department's plan to continue the current suspension of high-level contacts with that government?

Secretary **BAKER**. Senator Boschwitz, it has been my view for some time now that we really ought to look anew at our ban on high-level contacts with New Zealand. I think we should continue our ban on military intelligence and security cooperation because of the position of the New Zealand Government with respect to our neither-confirm-nor-deny policy regarding naval ships. I think we ought to continue to suspend our defense obligations to New Zealand under the ANZUS treaty. But I don't think that it makes very good sense, frankly, to continue a ban on high level contacts on matters other than military or intelligence.

To give you an example of what I mean, the New Zealanders were very supportive of positions that the United States took in the United Nations on drift-net fishing. We find ourselves on the same side of drug issues, narcotics issues, and other things. And I think it is short-sighted for us to say that we cannot have any high level political contacts, and I intend to, as far as I am concerned, resume contacts with my counterpart.

Senator **BOSCHWITZ**. May I ask a final question, Mr. Chairman?

Chairman **SASSER**. Yes.

Senator **BOSCHWITZ**. I would comment on that by saying that I agree with you that it is unfortunate that our contacts or that our relationship with New Zealand has deteriorated. I think it is one of two countries—the other being Australia—that has been supportive of us in every conflict that we have found ourselves in in this century. So they are good friends, and they do share great commonality.

Secretary **Baker**. I think we have fought together in four wars in this century, Senator.

Senator **Boschwitz**. That is right. In every one that we have been involved, I think they have been involved.

I would end by saying that I absolutely join Senator Kasten. I hope that you will send up here a revised or supplemental appropriation along the lines that Senator Kasten or others have suggested. I will be very supportive of that. I think that in foreign aid you get more of a bang for the buck, so to speak, than you do in many other elements, particularly in our military budget, and that it is money well spent, and that it is money very well leveraged.

I thank you, Mr. Chairman.

Chairman **Sasser**. Thank you, Senator Boschwitz.

Mr. Secretary, recent changes have created what I perceive to be in Eastern Europe a very large marketplace in the future for American goods and services, probably, some have said, the largest new market to be exploited since World War II.

Now, my concern is that we do not appear as a government to be moving as rapidly as others are in their efforts to lay the framework to exploit that market. For example, I am told that Japan provides official loans or guarantees for nearly $4.4 billion for exports to Eastern Europe, and that we in this country, our government, provides support for less than $700 million of U.S. exports to Eastern Europe. And you hear much conversation about what is going to occur in 1992 with regard to the Europe economic consolidation there and the Europeans having that market and Eastern Europe, the Japanese exploiting the markets in the Far East, as well as exploiting the market here in the United States. And we are stuck with markets south of the border. Unfortunately, those folks south of the border don't seem to have much money. All they have are obligations owed to U.S. banks.

My point is that I don't think we are doing enough, it appears to me, to try to put our people in a position to exploit these new markets. And the administration's prime export initiative seems to be to cut the Import-Export Bank Program. My question to you, Mr. Secretary, is: Can't we do better in supporting our industries in penetrating these new markets that are developing in Eastern Europe?

Secretary **Baker**. We have further to go, Senator, than others. You are quite right about that. And we have further to go because we have still got a lot of legislation on the books that dates back to the ideological conflict that we have been through over the course of the past 40 years. We are taking steps to remove that legislation. We hope that the Congress is going to move expeditiously. We are quite confident that they will. We are granting MFN status. The President is prepared to do that as these countries commit to free immigration policies that they articulate now. We would like to deal with the Stevens and Byrd amendments. That would permit us to do some things in terms of financial guarantees, in terms of ExIm Bank credits that we sometimes cannot do now with respect to some of these countries.

We are in the process of talking to them about bilateral investment treaties and tax treaties so that we can encourage trade and investment with those countries. You are quite right. We have further to go, perhaps, than some others because of the security positions that we have taken in the past. But I think we are moving as expeditiously as we can. We certainly want to, and we will be looking to the Congress for help.

Chairman SASSER. Well, does it make sense to you, Mr. Secretary, for us to be cutting the ExIm Bank at this particular time when we are trying to get into the export business in a larger way in Poland, Romania, Panama, other places around the world?

Secretary BAKER. Senator, it makes sense when you consider the colloquy that we have all had here this morning about the shrinking pie with respect to this 150 account. ExIm Bank, of course, comes out of the 150 account. It is a very, very popular political account. It is easy to generate support for that. And I suppose we would be inclined to spend billions and billions of dollars if we just gave vent to the political pressures out there. But it is——

Chairman SASSER. Why don't you just go to the White House and tell the President to read your lips, that you need some more funds for this 150 account?

Secretary BAKER. We have increased it by 9 percent this year, which is more than it has been increased in quite some time. If you tell us that we will have more funds, boy, I will do that in a hurry.

Chairman SASSER. No; we are going to tell you, Mr. Secretary, you are going to have less.

Secretary BAKER. You are going to tell us if we want more we have got to raise taxes, and that is an old debate that we have had for 8 years.

Chairman SASSER. No, no; we are not going to do that anymore. We have learned our lesson on that. We are not going to do that. But what we are going to tell you is that if we are not going to provide the resources to do the things we need to do as a government, then we can simply continue to decline and become less of a force and less influential in the world. Frankly, that is what I am perceiving as I read and travel around.

Let me just ask you this question, Mr. Secretary. A few weeks ago, the Department of Defense leaked a new policy statement which claimed that the United States faced increasing competition with the Soviet Union and the Third World. Frankly, I found that to be astonishing. Even Time Magazine, which is hardly a left-wing publication, has an article in which they are detailing country by country the reaction of the Soviet Union's Third World clients to what is occurring in the Soviet Union with regard to withdrawing support from their Third World clients and the apprehension that even more support will be withdrawn in the future.

As a matter of fact, my own view is that although our policy played a great role in what occurred in Nicaragua, I think the specter on the horizon, as far as Mr. Ortega was concerned, was the loss, perceived loss of Soviet economic support in the future and had a great deal to do with him agreeing to these elections and going forward.

Secretary BAKER. Yes, sir. I think that is correct. But also very important in that equation was the fact that he had, in fact, been cut off from support from European donors who had been donating before and who agreed with us, at our request, to require them to conduct a free and fair election as a condition to receiving further economic assistance.

Chairman **Sasser**. I don't mean to diminish the influence of our policy on what occurred in Nicaragua over the past year. But I am saying that I think in my view that had to play somewhat of a role in some of the decisions that he made. To me that just makes sense. But what I am coming to, it is not the administration's view, or certainly not the State Department's view, is it, that we face a growing threat from the Soviet Union and the Third World? I mean, we see them pulling back from Cam Ranh Bay, and we see what is almost becoming an open breach between Castro and Gorbachev.

Secretary **Baker**. It is not my view, Senator, and it is not the view of the Department of State that we face a growing threat. It is my view and the view of the Department that we have not perhaps made as much progress with respect to our agenda with the Soviet Union in some of these regional conflict issues as we would have liked. And there still is some competition going on between us in some regional conflicts situations. And I guess you would have to say that to the extent that that competition continues, there is some continuing threat. Growing threat? I don't think I could agree with that. But I haven't seen the reports you are talking about.

Chairman **Sasser**. Well, we don't expect them, for example, to return to Afghanistan, and we know that their role in Ethiopia and Angola does not appear to be increasing. I would not anticipate an increase——

Secretary **Baker**. I might have to just put a caveat in there on Angola, Senator, and say we discussed that when I was in Moscow several weeks ago. There has been a recent offensive by the MPLA that the Soviets certainly didn't do anything to dissuade, if they did not, in fact, actively support. So that is what I mean when I say there is still competition. I can't argue with you with respect, perhaps, to what is going on in Ethiopia.

Chairman **Sasser**. Senator Kasten. And let me admonish all of you here. I am giving back some of my time here because we promised the Secretary we would do our dead-level best to get him by 11:30. Senator Kasten.

Senator **Kasten**. Mr. Chairman, how much time are you allotting to each member? My understanding was it was 10 minutes, then it went to 5 minutes. Is that right?

Chairman **Sasser**. That is correct.

Senator **Kasten**. And now we are back at what?

Chairman **Sasser**. We are supposed to be back at 5 minutes.

Senator **Kasten**. First of all, Mr. Secretary, I just want to say that with regard to the discussion that you had with the Senator from Colorado, that in the 150 account family planning money under AID in 1986 was $220 million; in 1990 it was $270 million. So we increased it by about $50 million at a time when the overall account went from roughly $20 billion to roughly $15 billion. So the family planning increased, and I also would point out that we, Congress, added $20 million in this last year to get it up to $270 million. So that overall account has been increasing, and I think that those are dollars well spent.

I wanted, Mr. Secretary, to ask you just one question with regard to a discussion of a European development bank. My understanding is that France is now spearheading an effort to create, if you will, a new multilateral lending institution, a European development bank, to provide loans to Eastern Europe. My question to you, especially since you are the former Secretary of the Treasury: From the standpoint of U.S. interests, doesn't a new European development bank raise a number of troubling questions? First of all, why do we need a new institution? Couldn't it be within a special facility at the IMF or the World Bank and use the development programs and procedures that are already in place? These existing institutions are short on funds but they sure are not short on bureaucracy.

Secondly, generally speaking, Western Europeans haven't been advocates of the kind of growth economics, the American-style market economics that you and others here have been advocates of. One of the efforts that we have been making within the IMF and the World Bank is to try to change that mind-set. It seems to me that a new European development bank would create a whole new set of challenges with regard to the way that we look at growth and development.

So what is our position with regard to a European development bank, and do you agree with me that a special facility would serve the same purpose, and that we have some significant problems if a European development bank were to be established?

Secretary BAKER. Senator, first of all, this gets back to the chairman's comments on leadership and world leadership, and I am not as pessimistic, I think, as he is about the role of the United States in the world. And I say that on the basis of the 3½ years I had at Treasury and the 1 year I have now had at State. But the Europeans very badly want us to participate in this institution. They want U.S. participation, and they want U.S. leadership on issues that come up from time to time.

It is our sense that the establishment of an institution like this is quite appropriate. It will not displace the proper functions of the World Bank. We have other regional development banks that we in the United States have supported in the past. We have an Asian Development Bank, as you know, in which we are participants. We have an Inter-American Development Bank, as you know, in which we are participants.

The events that are taking place in Central and Eastern Europe are the most significant change in the overall East-West relationship and in the relationship between the two competing major philosophies of the world in 40 years. And I think it is not inappropriate to recognize that there is going to have to be a major effort to sustain the blossoming of democracy in these countries. And a development bank can be helpful.

One of the things we are trying to negotiate for in the discussions we are having with these participating countries is that there be a greater private sector focus on the lending policies of this bank. And we are holding that out as, frankly, one of the considerations that has to be taken into account before the United States will firmly commit to membership. I don't——

Senator **KASTEN**. Mr. Secretary, why do we need a new institution? Why isn't the World Bank and the IMF capable of doing exactly what you just described?

Secretary **BAKER**. The World Bank conceivably could by expanding its program and instituting an Eastern European or Central European effort or facility. It might be able to do that. But the same arguments, Senator Kasten, that led to the development of the Asian Development Bank and the Inter-American, which we strongly supported, are present here. The focus will be more direct. It will be greater if you have a separate institution. And it is our sense that if it is structured in an appropriate way, structured in the right way, and the concerns and considerations that the United States thinks are important are met, we ought to participate.

Senator **KASTEN**. I want to quickly switch to a subject that you discussed with Senator Symms and also with the chairman with regard to the Baltic States. We don't recognize the illegal occupation of Estonia, Latvia, and Lithuania. The Lithuanian elections that were held just this weekend I think clearly rejected the Communist Party there, and my best guess is—and I think everyone's best guess is—that the elections in the other two Baltic States in March will yield the same result. All of this making the likelihood of independence even closer.

What possibilities exist for the United States to assist these developing democracies? And, specifically, following the example of what we did with earthquake relief with $2 million for Armenia, are there opportunities for possibly environmental health or other kinds of assistance, ways that we can begin to more closely associate ourselves with those developing democracies in the Baltic States?

Secretary **BAKER**. One way we can support the aspirations of these people for self-determination, Senator Kasten, is to articulate our support as we have done over 40 years and as we continue to do. And we do not recognize the incorporation of these States into the Soviet Union. We never have, and we make that clear.

At the same time, we have said that we think change, any change that takes place, should take place peacefully.

Senator **KASTEN**. As in the elections that took place this weekend.

Secretary **BAKER**. Absolutely. And we are pleased that those elections were carried out in a peaceful and relatively open manner. We think the results speak for themselves. I think we should at the same time recognize that it was the leadership of the Soviet Union, in part, that contributed to the fact that they were carried out in a peaceful manner, and that there was no resort and has not been any resort to the use of force.

In fact, during the course of our conversations when I was in Moscow recently, we talked about the fact that they are considering some sort of legislation that would govern the question of independence, the question of secession—something, quite frankly, that I think is already provided for under the Constitution of the Soviet Union, but something that has never been permitted as a matter of fact. So they need a mechanism under which that process can take place if, indeed, it is going to take place.

So I think our approach on this issue has been exactly the right one, and so far I think we keep our fingers crossed. So far, so good.

Senator KASTEN. Thank you, Mr. Chairman.

Chairman SASSER. Thank you.

Senator Fowler.

Senator FOWLER. Mr. Secretary, you have got to go. I won't keep you.

Secretary BAKER. Yes.

Senator FOWLER. But I should like to know the status of Jackson-Vanick with the Soviet Union. It is my understanding, reading between the lines, that at Malta the President agreed to remove those restrictions.

Secretary BAKER. We have agreed to waive them, I think, for a year, Senator.

Senator FOWLER. Is the administration seeking congressional action to formally remove them?

Secretary BAKER. Well, first of all, we need a commercial agreement. We are in the process of beginning the negotiation on that. We have also said, and said this a year or so ago, that we hope the Soviets will legislate their freer immigration policy. They are moving on that, and the Supreme Soviet, when I was there several weeks ago, had already passed that on first reading. It may have gone further now.

We need a commercial agreement. There have been some committees of the Congress who have indicated an interest in being closely consulted and kept informed with respect to what is in that commercial agreement, and we would expect to honor that. Exactly where that commercial agreement stands, I don't have in my head, but we are working on it and I think we are getting very close.

Senator FOWLER. Thank you, sir.

Chairman SASSER. Senator Wirth.

Senator WIRTH. Just very briefly. Thank you, Mr. Chairman.

Let me go back and make sure that I understand on the Ottawa questions. Is the agreement reached in Ottawa a treaty, or is it a bilateral executive agreement that does not have to come up here for ratification?

Secretary BAKER. I don't think we have crossed that bridge, Senator Wirth, so I would rather reserve on that question and send you a written answer.

[The following was subsequently supplied for the record by the State Department:]

FORM OF OTTWA AGREEMENT ON UNITED STATES/SOVIET TROOPS IN EUROPE

Question. Is the agreement reached in Ottawa a treaty, or is it a bilateral executive agreement that does not have to come up here for ratification?

Answer. The agreement reached in Ottawa on United States and Soviet troop levels in Europe (the 30K/195K agreement) is an agreement in principle among the 23 NATO and Warsaw Pact nations. We are now working to decide how best to formalize that agreement.

Senator WIRTH. In either case, I am not attempting to be contentious, just to make sure that I understand what the implications of this might be. Let me go back to my earlier question. Were the newly reunified Germany to ask us to withdraw all American troops, for whatever reason they might have, we would do so. Isn't that correct?

Secretary **Baker**. I think that is correct. Yes, sir.

Senator **Wirth**. And we would then be left in all of Europe, including the southern flank and Turkey, we would be left with a total of 30,000 U.S. troops in Europe. Is that not correct?

Secretary **Baker**. I think that is correct.

Senator **Wirth**. Now, one of the arguments that has been forwarded in all of this discussion related to a unified Germany and where it ought to be, has been that that unified Germany should be within the framework of NATO.

Secretary **Baker**. That is right.

Senator **Wirth**. And that that is in the interests of Germany's neighbors and, in fact, in the interests of the Soviet Union to have Germany thoroughly entangled or involved with a NATO alliance, NATO command, NATO arms purchases and so on. Isn't that correct?

Secretary **Baker**. We are very firm in our view that the unified Germany should be a member of NATO, and so is the leadership of the Federal Republic of Germany and so are all of our allies.

Senator **Wirth**. Now, can you tell us how you think it would appear if, in fact, the United States had no presence to speak of on the ground in Europe? What would that do to the overall perception of the strength of NATO? I mean, if we had only 30,000 troops——

Secretary **Baker**. Your question is very hypothetical, Senator, and what it does is it presupposes that a unified Germany as a member of NATO is going to say we don't want any forces on our soil. I am not willing to make that assumption.

Senator **Wirth**. But it seems to me one of the—I understand you are not, but it seems to me we do have the obligation to play a what-if game. You do that all the time as a very effective politician: if this happens, then what?

Now, if we were to arrive at that kind of a situation, we would, in fact, be left in a situation in which the NATO contribution would be only—let's assume, for example, that the German Government might be taken over by a very, very conservative group, and that conservative group would see that it would be in their interest—it might be—to ask the United States to withdraw all troops. That would leave NATO in Europe with almost no U.S. presence whatsoever. That, in turn, would lead to a very sharply declined capability in NATO and would allow, then, a reunified Germany to do a number of the things that people are concerned in Europe that they have done twice in the last century.

Secretary **Baker**. Senator, it would also be the case, if the Congress were to ask us to pull down 195,000. That is why we hope very much that they won't do that. We will still, of course, have the nuclear umbrella available, and this wouldn't touch that top side or bottom. And you would not have the situation that we have today or that we have had for the past 40 years where you have a massive imbalance of Soviet troops, forward deployed, in other Eastern European countries and in the G.D.R.

Senator **WIRTH**. It does seem to me, Mr. Chairman, that we would have been much better off—or we might have been much better off to be negotiating a mix of the 195 and the 30, rather than an absolute, if the 195 isn't there, we are left entirely with the 30. And I suspect that that is the issue in front of us.

Secretary **BAKER**. Well, Senator, let me simply say that I think when you look at the agreement overall, the benefits we get with respect to the disproportionate reductions we will get in Soviet manpower, the principle of asymmetry that is established, we conclude that this is what it took to get the agreement to the Soviets, the President's manpower proposal. He thinks it was very much worth it. We think it is very much worth it. We hope that we can convince you of that.

Senator **WIRTH**. Well, Mr. Secretary, I just want to make sure that we understand what the implications of this are. I am not sure that this is a bad thing at all. I just want to make sure that we have thought through, you know, what happened if, and did, in fact, we get precisely what we set out to do. You say yes, we did.

Secretary **BAKER**. We really did.

Senator **WIRTH**. And that is an important statement.

Thank you, Mr. Chairman.

Chairman **SASSER**. Well, thank you very much, Senator Wirth, and thank you, Mr. Secretary. I just would leave with one parting comment, and that is: I have been very vocal in my views over the years that we ought to have greater burden-sharing on the part of our NATO allies. I have been very vocal in my views that given the very strict budget constraints under which we operate and given lessened tensions in the world, that we ought to try to reduce our defense budget as much as our security commitments will allow us to do so.

But having said that, I feel very strongly that we ought to maintain as long as possible a couple of United States divisions, at least, in Germany. And I would not be adverse, quite frankly, to seeing at least a token Soviet commitment remain in Germany for the foreseeable future. So although there may be strong sentiment in other areas of the Congress that we want to get the troops home as soon as possible, as far as this Senator is concerned I would like to see United States troops stay in Germany as long as possible; and their withdrawal would raise the question of what do we do about dual control over nuclear weapons that we presently share there. There are all sorts of thickets that we get into.

Mr. Secretary, we are grateful to you for appearing before us this morning and giving us the benefit of your testimony and your views. Thank you very much.

Secretary **BAKER**. Thank you, Mr. Chairman.

[Whereupon, at 11:49 a.m., the committee was adjourned, subject to the call of the Chair.]

United States Department of State

Washington, D.C. 20520

MAR 30 1990

Dear Senator Bond:

Thank you for your letter of March 6, 1990 to Secretary Baker raising two questions for inclusion in the record of the Budget Committee Hearing on International Issues.

Your first question concerns Exim funding. As you note in your letter, the Administration's 1991 budget proposes $500 million for Exim's direct loan program. This amount is unchanged from our request last year, but which Congress increased to $612 million in the FY 1990 budget. Our FY 1991 proposal is based on our continuing belief that $500 million for direct loans, combined with Exim's guarantees and insurance, will provide comprehensive financial support for U.S. exporters. I would also note that the Administration has had notable success in international negotiations that have reduced subsidies on direct loans by about 90 percent since 1980. Therefore the need for direct loans has been significantly reduced.

You also mention that the Administration has not implemented the Interest Equalization Program authorized by Congress on a pilot basis for FY 1990. While we recognize there are a number of positive features to this program, on balance the Administration felt that it was a costlier and less transparent means to provide the same kind of support to U.S. exporters than is now available through other Exim's programs.

Your second question relates to the lack of direct flights between Moscow and Tel Aviv. As you are aware, the Administration has encouraged and will continue to encourage the Soviets to establish a direct air link between Israel and the USSR. We have raised this issue in bilateral discussions with the Soviets on a number of occasions, including Secretary Baker's meeting with Foreign Minister Shevardnadze in Moscow in early February.

The Honorable
    Christopher S. Bond,
        United States Senate.

Despite our support for direct flights to Israel, we oppose making direct flights to Israel a requirement for a waiver of the Jackson-Vanik Amendment. Last May, President Bush announced that he would work with Congress on a Jackson-Vanik waiver provided that the USSR codified it emigration legislation and implemented it faithfully. Considerable progress has been made since then:

-- In November, the new Soviet emigration law passed its first reading by the Supreme Soviet. Final passage is expected during the current session.

-- Jewish emigration from the USSR topped 72,000 in 1989 and we have been working with the Soviets on resolving outstanding refusenik cases.

-- In December, the President proposed targeting the June Summit for completion of a Most Favored Nation trade agreement. We began discussions on an agreement in February.

We believe that this progress could be threatened if the Congress were suddenly to add a new requirement; i.e., direct flights to Israel as a condition for a Jackson-Vanik waiver.

Sincerely,

/s/

Janet G. Mullins
Assistant Secretary
Legislative Affairs

DEFENSE SPENDING PRIORITIES FOR THE NINETIES: VIEWS OF OUTSIDE DEFENSE EXPERTS

THURSDAY, MARCH 8, 1990

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to notice, at 10:03 a.m., in room SD-608, Dirksen Senate Office Building, Hon. Jim Sasser (chairman of the committee) presiding.

Present: Senators Sasser, Exon, Wirth, Conrad, Domenici, Grassley and Kasten.

Staff present: John L. Hilley, staff director; and Randy DeValk, group leader for national defense.

For the minority: G. William Hoagland, staff director; and Roy Phillips, senior analyst for national defense.

OPENING STATEMENT OF CHAIRMAN SASSER

Chairman SASSER. The committee will come to order.

This morning, I would like to welcome our guests, Mr. Mayer of the Congressional Budget Office and his colleague.

Let me begin this morning by trying to frame the testimony that we will hear today, put them in the framework of the conclusions that were reached by the primary official of this government who is charged with maintaining the most up-to-date and reliable intelligence on the international threats that face the United States—the Director of the Central Intelligence Agency.

Last week, the Director of the CIA, Mr. William Webster, made the following four points in testimony before a House committee, and I am quoting here what the Director said:

"There is little chance that Soviet hegemony could be restored in Eastern Europe."

The second quote: "Soviet military planners could not count on East European military forces in the event of a conflict with NATO."

The third quote: "Even if a hardline regime were able to regain power in Moscow, it would have little incentive to engage in major confrontations with the United States . . . and would be unlikely to indulge in a major military buildup."

The fourth quote: "Communist parties will continue to lose legitimacy and strength, except perhaps in a small number of backward and isolated nations."

So says the Director of the Central Intelligence Agency. This morning, in dispatches carried in The Washington Post, we find that the Defense Intelligence Agency does not disagree on the record with the observations made by the chief of our intelligence community in this country, the Director of the CIA.

Now, I view the comprehensive and definitive threat assessment offered by our highest ranking intelligence official in the United States, in stating categorically that the threat has drastically declined, both inside the Soviet Union, to Western Europe, even in the third world, I believe that William Webster has pushed the defense debate beyond its early stages of uncertainty.

In my judgment, it is now fairly clear that we can and should make substantial cuts in the defense budget of the United States. Now, this morning, we are going to hear from the Congressional Budget Office that a reduction of some $80 billion down to the range of $220 billion in 1990 dollars is certainly reasonable and potentially achievable over time.

Just this morning, probably the leading periodical in the United States, The New York Times has begun a two-part series on the editorial page in which they are advocating a cut in the defense budget of $150 billion per year by the end of this decade.

Senator Exon. Did you say $150 billion per year?

Chairman Sasser. $150 billion off baseline, I am told. So, the impediments to achieving a real peacetime defense budget, I think it is clear now, are managerial and they are bureaucratic and sometimes political.

They have little to do with the threats we face from without and a lot to do with the inertia that we must overcome from within.

In order to help structure a prudent build-down, the Budget Committee has asked CBO to calculate the implications of an immediate $15 billion cut in outlays for fiscal year 1991.

Now, there are two ways to look at a $15 billion cut. Some will look at it from the point of view exclusively of what we are losing. Well, I will urge my colleagues to look at it differently and look at it from the point of view of what is left. And after a $15 billion cut in fiscal year 1991, what you have left is 95 percent of the military establishment that we have built over the decade of the 1980's. In other words, rather than the glass being 5 percent empty, it is 95 percent full. And I think it is instructive and useful to remind ourselves of just how much we continue to spend on defense, even after an attempt to scale it back.

After a $15 billion cut, $291 billion in outlays would remain and that is a massive amount of money. In the area where people are most concerned, in personnel and force structure, let us just look for a moment at what it will buy, and we have a chart up here that I call to my colleagues attention. We might turn that chart just a little bit, if we could.

U.S. FORCE STRUCTURE OPTIONS

	1990	------1991------	
		Administration	Illustrative $15B
	Actual	Proposed	Savings Plan
Total Mil Pers	2.0 M	2.0 M	1.9 M
Army:			
Active Divisions	18	16	15
Reserve Divisions	10	10	10
Air Force:			
Tactical Fighter Wings	36	36	34
Navy:			
Carrier Battle Groups	14	14	13
Total Ships	551	546	529

A $15 billion cut would mean that we would be reducing our 2 million-plus military personnel down to 1.94 billion in personnel. It would reduce active Army divisions down from the administration's 16 divisions down to 15 divisions, so we would lose one Army division.

Reserve divisions would remain at the same strength of the administration, 10 Reserve divisions. The administration wants to retain 36 tactical fighter wings, with a $15 billion cut, we would retain 34. The administration wants to retain 14 carrier battle groups, with the $15 billion cut, we would have 13 carrier battle groups—a reduction of one. That would still give us the same number of carrier battle groups or a larger number than we had during the decade of the 1970's and most of the decade of the 1980's. And bear in mind, there are four new nuclear super carriers, the Lincoln, the Washington, the U.S.S. United States and the U.S.S. John Stennis, that will be coming on-line during the decade of the 1990's. With a $15 billion cut, we would be left with a 529-ship Navy, down from the 546-ship Navy that the administration has. In short, we would be left with a very, very large military establishment, indeed.

Now, that is an extremely large measure of security for a world where the CIA Director has declared the major hostile forces have "irreversibly changed."

So, in conclusion, let me just say to my colleagues that the defense number that this committee settles on will be, in all probability, I think, the linchpin for this entire budget year, and my conclusion is that we can and should seek the deepest cuts that the CBO has explored here.

Let me turn now to our distinguished ranking member, Senator Domenici, for his comments and observations at this time.

OPENING STATEMENT OF SENATOR DOMENICI

Senator DOMENICI. Mr. Chairman, thank you very much.

First, let me say to you and to the committee that I am not going to be able to stay much longer than about 30 minutes, but I think we will be represented by Senator Grassley and perhaps other Senators will join us.

Let me first address the point you made with reference to The New York Times. I do not recall right now what you said about the quality of the newspaper, but I think it is an excellent periodical and they have treated this Senator rather fairly.

I frankly just want to make the point that I think what they are writing about the defense budget is very interesting and ought to stimulate some debate. While I am not sure that they ought to write the defense budget for the United States, it would be interesting to see what they wrote about the defense build-up, which I assume they would have disagreed with, and to compare that with what they are suggesting for the build down. I do not know why we should now look to them for great wisdom when the build-down occurs. Having said that, I know they will contribute some interesting detail to this debate.

I am just going to make a couple of observations. I want to thank the Congressional Budget Office for the two studies they already did. They are now public and I am impressed with the work. Frankly, Mr. Chairman, I asked them to do it, you had no disagreement, and we now have one on the budgeting and military effects of a Conventional Force in Europe (CFE) treaty and one on the budgetary and military effects of a Strategic Arms Reduction Talks (START) treaty.

The strategic study is of extreme interest to this Senator. I have been saying that "we ought not make mistakes in a hurry." While I do think that this statement applies to the conventional side of arms control—in Europe things are changing rather rapidly. I believe the statement applies unequivocally to the strategic side.

Many people think that we can dramatically reduce the defense budget by cutting American strategic nuclear forces. The CBO study convinces me that we are not going to save a lot of money on the strategic side and that strategic force reductions should be controlled by treaties. The issue is less one of limits on nuclear weapons—we all know what START is going to do on the top end—and more one of modernization within those limits. We have to make a good analysis of what is going to happen on the modernization size.

The CBO says if the United States continues modernizaton with the contraints of a START treaty you probably do not save very much. Over 10 or 15 years you might save, on average, $3 billion a year. Interestingly enough the study says that with absolutely no modernization, you might save as much as $10 or $12 billion a year. In neither of these cases is CBO prepared to tell us yet how much we have to spend to fill in the gaps on verification and the like, which ought to be rather expensive.

Now, having said that, let me just suggest that I listened attentively to your quoting of the CIA Director. I understand that there is a lot of mystique and mystery to this word "threat" and "threat assessment." Frankly, I do not think we have a threat assessment that we have listened to and that has been put together in a way we can understand.

We have the CIA saying things have changed and Mr. Webster is perhaps saying they have changed irreversibly. But I am going to suggest, and I do so now, that if in fact we are going to significantly alter our defense posture, based on the statements thus far made by the Central Intelligence Agency or the Defense Intelligence Agency, that we ought to avail ourselves, Mr. Chairman, of an executive session as soon as these kind of people can put a threat assessment together. We ought to invite them here.

Because we might not want to have this kind of testimony done five times, we might invite the Armed Services and have a joint session. They might welcome us or we might welcome them. In such a session we could get the Chairman of the Joint Chiefs of Staff, Mr. Webster, and others and, rather than having generalized statements we could get them to tell us, subject to the security limitations that are here in a closed session, about the threat assessment, in particular, the strategic assessment.

The Soviet Union is changing and we do not know how it is going to evolve. Perhaps they cannot put their empire in Europe back together. While I think that is probably true I do not know what that means with reference to the 11,000 nuclear warheads aimed at the United States and the modernization effort that has taken place since Gorbachev took office. Soviet strategic modernization is still occurring. What does it mean?

I say to my friends who are testifying, in all deference, we welcome your testimony and your conclusions. But I dare say that even you, Mr. Mayer, would welcome some guidance with reference to what the threat assessment is, rather than to continue to be asked what would you cut and what do you think the nuclear situation ought to be or what is it under a various of scenarios. I think you would welcome a more direct inquiry, based on facts, and then you could probably give us some better facts.

I do not know the other witnesses well enough to know whether they would welcome that or not, but I do believe that is imperative and I recommend it, Mr. Chairman.

Thank you.

[The prepared statement of Senator Domenici follows:]

PREPARED STATEMENT OF SENATOR PETE V. DOMENICI

Good morning Mr. Mayer, It is a pleasure to have you with us so we can hear your views on the costs and effects of possible changes in the structure of U.S. military forces.

After your testimony we'll have a chance to hear from a distinguished panel of witnesses—Mr. Epstein from Brookings, Mr. Adams from the Defense Budget Project, and Mr. Gaffney from the Center for Security Policy.

I would note, Mr. Chairman, that it is my understanding that a lot of Mr. Mayer's testimony will be based upon two studies that I requested.

The first study, which was released in January, examined the budgetary and military effects of a C-F-E Treaty. The second study, which was released just yesterday, examined the budgetary and military effects of a start treaty.

Let me take just a minute to highlight some of what I found to be very important parts of these analyses. First, the treaties, in and of themselves, will not significantly reduce the Defense budget. Savings could be as little as $6 billion for a conventional forces agreement, $3 billion for a strategic forces agreement, or $9 billion for both. (These figures do not include added verification costs.)

Large savings, beyond the $9 billion, result from what might be called radical cuts in our conventional force structure and our strategic modernization programs.

While the events in Europe suggest that some conventional force cuts are clearly warranted, I don't think it is prudent, at this time, to trim back or abandon our strategic modernization efforts.

My reasoning is based on the following: The Soviet Union is passing through an unstable period—we shouldn't base our future security on our hopes rising out of the extraordinary events of the very recent past.

I'm reminded of the quote, attributed to Margaret Thatcher that suggests "The river is not a good place to be when the ice is breaking up."

The Soviet Union continues a robust modernization of its strategic forces—and we don't know yet what they will do after the conclusion of a START treaty. Maybe we can get some production and deployment restrictions in a follow-on "START II" treaty. But that is not certain by any means.

Second, real defense savings occur over a longer term. Most of the large savings that people hear quoted are based upon an averaging of savings over a period of 15 or 20 years. You don't get large savings in the first year or two. Additionally, there are certain to be some large inefficiencies—severance pay, unemployment, regional economic dislocations—that can result from attempts to cut our defense spending too quickly.

Finally, our defense deliberations should not be based on a simple effort to cut the top line. Our deliberations, when we focus on the security of this nation, must be based on a clear assessment of the myriad threats facing us, and a well thought out strategy for dealing with them.

Mr. Chairman there appears to be some disagreement in the intelligence community about the size of the Soviet threat facing our Nation and how threat will evolve in the coming years.

I think the time has come to do what we did in the early 1980's and that is, in the very near future, to go into executive session, perhaps with Secretary Cheney and General Powell, and Director Webster, and have some thoughful discussion on the evolving threat, how it effects our national security, and how we, in terms of our military force structure, should react.

With that said, I look forward to today's testimony.

Chairman **Sasser**. Senator Exon?

OPENING STATEMENT OF SENATOR EXON

Senator **Exon**. Mr. Chairman, I want to listen to as much of the questioning as I can. I must go down to the White House, to be there in a little over half an hour to listen to the presentation on the proposed new restructuring of the infrastructure. I suspect maybe that is where Senator Domenici must be also.

What we are going to do down there, Mr. Chairman, is decide where we are going to spend the peace dividend that we are talking about here today. Everybody has their own ideas on how that should be spent.

I have been listening to the very interesting comments by yourself and by the ranking member and I think both of you are on target. I guess the question comes of what the target is. In the Armed Services Committee, we have had a whole series of threat assessment hearings and I think over there in that authorizing committee, we have a pretty good understanding of what the significantly reduced threat is, and I say to the members of the Budget Committee that you might be surprised when the Armed Services Committee makes its recommendations, as it must sometime in the near future, on what we are recommending for a budget level.

I would suspect it is not going to be as low as the chairman indicated, but it may be a surprise to most members of the committee what that will be. We agree that the administration, I think we agree as a committee, the Armed Services Committee, that the numbers that have been sent by the administration do not fully reflect the reduced threat.

I also say that I appreciate the fact, as Senator Domenici has highlighted—and I just looked at the figures in The New York Times article that the chairman referenced in his opening remarks, I notice that there are no strategic programs listed therein. They may get to hit in the follow-on article tomorrow.

But the facts of the matter are, despite all of the publicity that we have received, despite the fact that the news media has highlighted the fact that if we just cancelled some of those strategic programs, mainly the B-2, you know, that is going to solve our whole problem.

The facts of the matter are we should be remembering that all of the strategic programs, including SDI, B-2, B-1, all of the rest, Minuteman and all of the rest are only 15 percent of the total military budget, so if we wiped out all of them, which I think no one suggests we would do, we would still not be recognizing very much of the peace dividend. Therefore, I hope we can all keep this in perspective and recognize that we have to make a balanced approach, I have suggested in the form of a surgeon's scalpel, rather than a machete across the board, as we recognize and realize that not only are we entitled to a peace dividend of some type, but it is very necessary and very predictable and certainly is in order.

I just hope that we will not jump on the bandwagon that so many people are jumping on today, that somehow the peace dividend is going to be all that we are going to need to solve not only a peace dividend for more expenditures, but also a magical stroke that will significantly reduce the budget deficit and/or follow-on total borrowings of the United States in form of the national debt. I am just pleading with you to keep this in a realistic form, under realistic attitudes.

Chairman SASSER. Thank you, Senator Exon.

Senator Grassley, do you have any opening comments or an opening statement to make?

OPENING STATEMENT OF SENATOR GRASSLEY

Senator GRASSLEY. Thank you, Mr. Chairman.

I want to take advantage of opening comments to bring attention to a report[1] that I am issuing this morning, and each person has it at their table. It is the first comprehensive scorecard of the reform efforts underway at the Department of Defense. It also happens to be a blueprint for successfully managing the defense build-down. It is a strategy that I believe this committee ought to look at carefully, since I believe much of the responsibility for the build-down will, in fact, reside right here with us.

It is my belief that we are on a course towards the return to the hollow army of the 1970's, only at a much greater cost. If the administration reform efforts do not work, it may very well be that our peace dividend will get squandered away.

I would like to take a moment, if I could, to explain the paper. The title is "The Defense Management Challenge: Recommendations for Managing Defense Resources in the 1990's." In the paper, I refer to the problems plaguing the Department of Defense as a paradox. The paradox is that we appear to have simultaneously too much money and, yet, too little money; too much money to manage programs efficiently and too little money to execute our defense plans.

In the 1970's, this paradox led to the hollow army. In the 1980's, it precluded capability improvements commensurate with the defense budget growth, and in the 1990's, unless we can resolve this paradox, it will return us to a hollow army at far greater cost, as I mentioned already.

In my view, the DMR does not go far enough towards resolving the defense management paradox, so I present recommendations that do not subtract from or criticize, but build on the DMR that are designed to resolve the management paradox. In terms of the scorecard, the key section of this paper is a table on pages 14 and 15 that show the success or failure of specific implementation initiatives to date by each of the military services. The table lists all of the recommendations of the DMR and then whether or not they have been implemented and by which service.

In terms of the blueprint for the management of the build-down and improving defense management overall, I have presented the following: First, I have identified an improved 9-step planning process that builds on the DMR recommendations and makes use of existing processes to address the program execution problem, I have identified eight recommendations, three of which relate to contractor incentives for controlling costs. I have also identified an approach for building on the program executive officer, that is a concept that Cheney has put forth, in a manner that links planning and execution, which I believe is the key requirement for resolving the management paradox.

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[1] See p. 373.

Finally, I have put forward six principles that DOD should use in formulating quantitative measures of success for tracking progress. This is a management component that has largely been ignored by the Department of Defense, and yet is necessary for achieving national security objectives in an efficient manner.

The bottom line of this paper is progress towards reform is creeping along too slowly. Meanwhile, the DMR savings of $2.3 billion projected for fiscal 1991 are already cancelled out by cost and performance problems on the AMRAAM. The shortcomings in DOD's current efforts are due mainly to bureaucratic resistance. As the winds of reform are sweeping through the halls of the Pentagon, bureaucrats everywhere are hunkering down, waiting for it all to blow over.

This concerns me greatly, Mr. Chairman, and that is why I intend to keep a very watchful eye on what is currently transpiring across the river. I believe it would be wise for this committee, as well, and as a whole, to keep a watchful eye on the progress of reform. If reform succeeds, a sizable peace dividend will follow and we will not have a hollow army, either. If reform fails, quite simply, the peace dividend that we are all anticipating is going to be small potatoes.

Thank you.

Chairman SASSER. Thank you very much, Senator Grassley. I would just say that your efforts over the past years in trying to combat waste and to move the Pentagon down the path of more efficient management of its resources are very commendable. I congratulate you on your past efforts.

Senator Conrad, do you have an opening statement or opening comments this morning?

OPENING STATEMENT OF SENATOR CONRAD

Senator CONRAD. Very briefly, Mr. Chairman. Let me, too, commend our colleague from Iowa. He has a long history of attempting to address the problems of waste, mismanagement and inefficiency and he brings a certain common sense approach to these issues which I appreciated before I ever came to Congress, so I want to commend him for his initiative in this regard. It is helpful, I think, not only to us but to the Pentagon bureaucracy itself, because there needs to be self-analysis and there needs to be a review of what is being done there, in light of dramatic change in world conditions.

Mr. Chairman, let me just express a view that is perhaps a minority view, but nonetheless very strongly held by this member, and that is that our country faces not only a threat assessment with respect to the military conditions, but we should be doing a threat assessment that is much more broadly based that deals with the true vulnerability of this question which I believe attaches to our economic vulnerability, and with respect to our economic vulnerability, the whole question of what we do in the priorities of this budget process is centrally important.

Very frankly, I do not think the proposal that is here moves with sufficient force along the path towards redirecting priorities to meet the needs of the 1990's, and I think it is time for bold action. The world has changed and changed dramatically and for 40 years we seemed to be stuck, dealing with a world that no longer exists.

The United States is no longer the dominant player as we were for the years immediately after the war and we are going to have to recognize the new reality. I for one am convinced that we have far too much of an overseas commitment for the current health of our economy and I believe that over-extension is hurting us, just as it hurt the Soviets, and I think we have got to wake up to it as a country, we have got to tell our friends in Europe the free ride is over, they are going to have to take on more of this burden. I think we are going to have to tell our friends in Japan we cannot continue to spend tens of billions of dollars paying their bills, when we have to borrow the money from them to do it.

If we are going to have a hearing on threat assessment, and I hope we do, Mr. Chairman, I hope we concentrate on the full threat to this country, including our economic vulnerability.

I want to thank the chairman for holding this hearing. I think it is important to our understanding of the options before us.

Chairman SASSER. Thank you very much, Senator Conrad.

Let me correct my previous remarks or amplify on them. The New York Times editorial to which I referred states that "defense spending could drop by $20 billion next year and $150 billion a year before the decade ends." I might say also, Senator Conrad, that our study here of a $15 billion cut is meant to be illustrative and not definitive as to what my recommendation would be to this committee or certainly what this committee should do in the final analysis about defense cuts.

Clearly, the committee faces a difficult task in deciding what the first postwar defense budget should look like, and to help us in these efforts, the committee is fortunate to have as our first witness this morning John D. Mayer, the Deputy Assistant Director of the National Security Division of the Congressional Budget Office.

Mr. Mayer is a graduate of the U.S. Military Academy at West Point. He holds a master's degree from Stanford University in operations research and statistics and also a master's degree from Long Island University in business administration.

Mr. Mayer has served in numerous command and staff positions in the U.S. Army. He served as an analyst in the Office of the Assistant Secretary of Defense. His publications include "Rapid Deployment Forces: Policy and Budgetary Implications," and "Heavy Versus Light Forces, A Question of Balance."

On behalf of the committee, Mr. Mayer, I wish to welcome you and look forward to your testimony and ask if you would, please, introduce your colleague for the record.

STATEMENT OF JOHN D. MAYER, DEPUTY ASSISTANT DIRECTOR, NATIONAL SECURITY DIVISION, CONGRESSIONAL BUDGET OFFICE, ACCOMPANIED BY ROBERT HALE, NATIONAL SECURITY DIVISION, CONGRESSIONAL BUDGET OFFICE

Mr. MAYER. Thank you, Mr. Chairman. This is Mr. Robert Hale, who is joining me from the National Security Division at CBO.

With your permission, I would like to submit my full testimony for the record [1] and just make a brief oral statement.

I appreciate the opportunity to testify today about the cause and effects of possible changes in the structure of U.S. military forces. I will focus first on the long run effects of military forces. Then I will discuss how quickly savings might be achieved.

The United States and the Soviet Union are currently negotiating a Strategic Arms Reductions Talks Treaty (START), while NATO and the Warsaw Pact are negotiating the Conventional Forces in Europe Treaty, or CFE. At the same time, many of the Warsaw Pact nations are undergoing far-reaching political changes that are moving them toward a democratic government. These momentous changes could significantly reduce the threats to U.S. security.

My testimony examines some of the reductions that would eventually reduce the annual U.S. defense budget by between $9 billion and $80 billion and reduce active duty manpower by about 100,000 to almost 600,000 people.

The United States could decide to make only the minimum changes required by the proposed CFE Treaty and to make only the minimum reduction in warheads required by the START Treaty while continuing to modernize all of its strategic weapons. For the CFE Treaty, that would be a minimum response; namely, withdrawing from Europe and demobilizing two heavy Army divisions and two tactical fighter wings. For START, the United States could retire the oldest strategic systems but continue to modernize all of its other systems, buying more Trident submarines, Rail MX missiles, small ICBMs, and B-2 bombers.

Eventually, changes in forces directly related to the treaty would reduce the annual Department of Defense budget by about $9 billion, and active duty personnel would eventually be reduced by about 107,000 people below the 1990 level.

The savings that are referred to in our alternatives are long-run savings expressed in 1990 dollars of budget authority and represent savings relative to the 1990 level of the defense budget.

The response to START envisioned in this alternative would maintain the rough parity in numbers of nuclear strategic warheads that exist today between the United States and the Soviet Union but at the lower START levels. This alternative would also substantially reduce the risk that the Warsaw Pact nations could successfully invade NATO.

Alternative II is generally consistent with the 5-year defense budget numbers of the administration's 1991 budget, reflecting an annual real decline of 2 percent in budget authority.

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[1] See p. 272.

Under this alternative, the Army would be reduced by five divisions, three active and two reserve; the Air Force by five active tactical fighter wings; and the Navy by 50 ships. Long-term savings would amount to $26 billion, and active-duty manpower would be reduced by over 250,000 people.

Alternatives III and IV offer ways to shift more of the burden of defense to the reserve forces. Alternative III makes large cuts in active-duty manpower and eliminates seven active divisions, 10 tactical fighter wings, and 72 ships. It creates five cadre divisions in the Army, each manned in peacetime by 3,000 officers and senior noncommissioned officers. In the event of mobilization for war, these divisions will be manned by individual Ready Reservists who have had recent active-duty experience.

Alternative IV differs from Alternative III in that it would create no cadre divisions, but would increase above the 1990 level the number of divisions, tactical fighter wings, and ships in the reserve forces. Savings under each of these alternatives would eventually reach $43 billion and active-duty military personnel would be reduced by between 400,000 and almost 500,000 people.

Strategic forces under Alternatives III and IV would be less modern than strategic forces under Alternatives I and II, and there would be roughly half the number of small ICBMs and B-2 bombers, and three fewer Trident submarines.

Responding to recent changes in world politics, the Congress could decide to begin now to make large reductions in active U.S. forces and some reductions in reserve forces. The large cuts in forces under Alternative V would reduce the annual defense budget by about $80 billion. For strategic systems, the alternative would terminate all future buys of major systems.

Cuts in active conventional forces would include 8 Army divisions, 10 tactical fighter wings, 91 ships, and 1 Marine expeditionary force. Five hundred and ninety-four thousand personnel would be eliminated from active duty, leaving DOD with about 1.5 million people on active duty.

Under Alternative V, the United States would continue to maintain rough parity with the Soviet Union in total warheads but would have substantially fewer modern forces than in previous alternatives.

Under the most likely type of Soviet nuclear attack, an attack with warning, the United States would still have about 5,800 surviving warheads. This number of warheads would be substantial and would be about the same number that would have survived in 1982 before the effects of the strategic buildup of the 1980s were realized.

In view of the political changes in Eastern Europe, NATO might only have to worry about the threat from the Soviet forces. In that case, even after the large reductions assumed under this alternative, the ratio of ground forces would be much more favorable than existed in 1988 and one that may well be acceptable to a defensive alliance like NATO.

The forces available under this option should also be adequate to meet smaller military contingencies. Since World War II, military interventions, excluding the Korean and Vietnam Wars, required many fewer active-duty military personnel than would be available under this alternative.

In the largest of these operations, the recent military action in Panama, the troops attributable to the operation numbered 27,000. Under Alternative V, the United States would have 1.5 million people on active duty, which should be adequate to meet such needs.

Up to this point, my testimony has focused on changes in military capability and savings in the long run. But how quickly could these savings be realized? Unfortunately, I can't give you a precise answer because the appropriate timing depends on political judgments—for example, what pace of defense reductions is correct in view of the uncertainty about future developments in the Soviet Union?

From a management perspective, the alternatives discussed in this statement, including the largest one, could arguably be carried out fully or nearly so within the next 5 years. But knowing that large reductions could be carried out within 5 years may not meet all of this committee's concerns. Therefore, at the chairman's request, we have assessed the effects of a reduction in 1991 defense outlays of $15 billion below the CBO baseline. This cut is $12 billion larger than the reduction in outlays proposed in the administration's 1991 budget.

CBO can analyze the broader long-term policy changes that were the focus of the first part of my testimony with the tools and models that we have available. In contrast, we cannot fully assess the effects of a substantial reduction in outlays in a specific budget year without making judgments for which we have neither the tools nor the expertise.

What we can do is illustrate the kinds of changes you might have to make to achieve such a reduction in outlays. As a starting point, for example, consider the numbers in table 3 of my testimony. They indicate how many dollars of budget authority would have to be eliminated in order to achieve a $15 billion outlay reduction. They also show the reductions in each appropriation proposed by the administration in its 1991 budget. To reduce outlays by $15 billion in 1991, you would have to reduce budget authority under this illustrative example by about $35 billion below the CBO baseline. This is roughly $26 billion more than the reduction recommended by the administration.

In accordance with the Chairman's request, this approach makes larger reductions in the investment accounts than in the operating and support accounts.

The relative size of these illustrative reductions would vary according to the category of defense spending. To reduce outlays by $15 billion, the appropriation for military personnel in 1991 would be reduced by slightly more than $4 billion in budget authority below the CBO baseline.

The administration's plan for pay raises and personnel reductions and the transfer of funds for subsistence in kind to the O&M appropriation would achieve $2.6 billion in savings. Additional reductions of 100,000 personnel would save about $1.4 billion in budget authority if the personnel reductions were made primarily through reductions in accessions.

The need for additional personnel reductions might be offset somewhat if the military pay raise was delayed or held below what was proposed by the administration or if there were fewer promotions or permanent changes of station than are envisioned by the administration in its budget proposal.

Because $1 of reduced authority for procurement results in only about 15 cents of outlay savings in the budget year, the procurement appropriation would have to be cut heavily under this approach. Indeed, budget authority for procurement would have to be reduced by $17 billion below the CBO baseline.

As a guide to what choices you may face if you want to cut procurement, Table 4 in my testimony lists the 15 procurement programs for which the Department of Defense has requested the largest amount of money in its 1991 budget proposal. The table also lists other general categories of procurement spending that could be reduced.

Table 5 lists the 15 largest Research, Developent, Test, and Evluation (RDT&E) programs. A few, most notably the Strategic Defense Initiative, are quite large, but most are relatively small. Thus, RDT&E savings of more than $5 billion, which would be required under this illustrative approach, can only be achieved by changing a large number of programs.

In the operation and maintenance appropriation, a reduction of more than $7 billion below the CBO baseline would be required to achieve outlay savings of $15 billion. O&M is a diverse account that pays for a variety of items. Because it is so diverse, it is hard to assess the effects of O&M cuts. Some O&M spending is related to the number of personnel on active duty. If personnel reductions are greater than what the administration proposes, then some additional reduction in the O&M account would seem appropriate.

It is reasonable to assume, however, that large O&M cuts would affect the readiness of the remaining military forces. In light of current world events, however, the Congress may judge that some reduction in readiness is acceptable. Moreover, some of these savings may be achieved through efficiencies, thus minimizing the reductions in military readiness.

I have been quite general in my discussion of the effects of reductions and outlays in order to be brief. I have also focused on actions required to produce savings rather than the effects on national security.

If you would like some other examples of how reductions might be made in each of these appropriations, you can find them in the CBO report, "Reducing the Deficit: Spending and Revenue Options," which was released last month as part of CBO's annual report.

In conclusion, I have focused today on alternatives that could eventually reduce the annual defense budget by between $9 billion and $80 billion. Reductions in military personnel would range from about 100,000 to almost 600,000. Under some assumptions about future threats to U.S. security, the largest of these reductions would leave the balance of conventional military forces in Europe near the level of the recent past. But, under other assumptions, which are well on their way to becoming the most realistic assumptions, even the largest of these alternatives would result in a balance of forces that may well be acceptable.

Clearly, it would be best to develop a long-range plan for altering U.S. defense forces that reflects a consensus about emerging security threats. You could then impose annual reductions in defense budget authority that are consistent with that long-term plan and with judgments about how quickly the threats to U.S. security are receding.

Under this approach, outlay reductions would depend on timing and management details that are best left to managers in the Department of Defense. I understand, however, that you do not have the luxury of ignoring 1991 outlays, and I have tried to be helpful in discussing the general problems and prospects associated with a $15 billion reduction in outlays.

Chairman Sasser. Thank you very much, Mr. Mayer.

[The prepared statement of Mr. Mayer follows:]

Statement of
John D. Mayer
Deputy Assistant Director
National Security Division
Congressional Budget Office

before the
Committee on the Budget
United States Senate

March 8, 1990

I appreciate the opportunity to testify today about the costs and the effects of possible changes in the structure of U.S. military forces.[1] I will focus first on long-run effects in military forces. Then, I will discuss how quickly savings might be achieved.

The United States and the Soviet Union are currently negotiating the Strategic Arms Reduction Talks (START) treaty. NATO and the Warsaw Pact are negotiating the Conventional Forces in Europe (CFE) treaty. At the same time, many of the Warsaw Pact nations are undergoing far-reaching political changes that are moving them toward democratic governments.

These momentous changes could significantly reduce the threats to U.S. security. But there remains considerable uncertainty about future events, which is reflected in the wide range of reductions in military forces that the Congress may consider. This testimony examines several reductions in this range, including:

- The minimum changes in forces required by the CFE and START treaties;
- Possible Administration plans for reductions in active and reserve forces;

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[1] More details about this analysis are contained in a CBO paper titled "Meeting New National Security Needs: Options for U.S. Military Forces in the 1990s." The paper reflects the efforts of many people. Robert F. Hale and John D. Mayer coordinated the analysis. Other contributors include Michael B. Berger, Bonita J. Dombey, Richard L. Fernandez, Jonathan E. Ladinsky, Corey D. Luskin, Frances M. Lussier, William P. Myers, V. Lane Pierrot, and Amy Plapp.

- Large active-duty reductions coupled with the flexibility to rebuild forces quickly; and
- Large active and reserve troop reductions that assume a major, permanent reduction in security threats.

These alternatives would eventually reduce the annual U.S. defense budget by between $9 billion and $80 billion. Reductions in active-duty manpower range from about 100,000 to almost 600,000.

My testimony today will discuss these estimates of budget and manpower reductions as well as the effects of the alternatives on military capability. Although the statement focuses primarily on long-run effects, I will also discuss how quickly the Congress might be able to make changes in the defense budget.

ALTERNATIVE FORCE STRUCTURES AND MILITARY STRATEGY

It is not my purpose today to propose an alternative military strategy for the United States. Nevertheless, the alternatives listed above would imply changes in some aspects of U.S. strategy. In keeping with the reduced security threat implied by the CFE treaty and recent political changes, all of the alternatives assume larger percentage reductions in military forces designed primarily to defend Europe. Thus, percentage reductions are larger in the budgets of the Army and the tactical Air Force than in the budgets of the Navy and Marine Corps. Moreover, all of the alternatives are designed to provide adequate numbers of active-duty military personnel to handle smaller military contingencies, such as the recent action in Panama. All of the alternatives are also intended to provide adequate active and reserve forces to permit mobilization for a future large war.

The alternatives differ in the amount of flexibility they retain to rebuild military forces quickly in the event of a major war. They differ most widely in the overall amount of reduction in military forces they assume can prudently be made, an important strategic decision that the Congress must face.

ALTERNATIVE I: MAKE MINIMUM CHANGES REQUIRED TO CARRY OUT TREATIES

The United States could decide to make only the minimum changes required by the proposed CFE treaty and to make only the minimum reductions in warheads required by the START treaty while continuing to modernize all of its strategic weapons. These minimum changes would be consistent with the view that, while the reductions in threats to U.S. national security are potentially great, they could be transitory.

For the CFE treaty, a minimum response could mean withdrawing from Europe and demobilizing two heavy Army divisions and two tactical fighter wings. For START, the United States could retire older strategic systems but continue all of its modernization programs--buying more Trident submarines, rail MX missiles, small ICBMs, and B-2 bombers (see Tables A-1 and A-2 at the end of this testimony for details).

CBO's analysis of the CFE and START treaties assumes that the NATO and U.S. proposals for the treaties are carried out.[2] The CFE analysis reflects the lower U.S. and Soviet personnel ceilings recommended by President Bush in his 1990 State of the Union message.

Budgetary and Manpower Effects

Eventually, the changes in forces directly related to the treaties would reduce the annual budget of the Department of Defense (DoD) by about $9 billion (see Table 1). After the reduction, DoD would have a budget of $282 billion in 1990 dollars, roughly 3 percent below the 1990 budget level. Most of the savings would be associated with conventional force cuts.

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[2] The analysis does not reflect proposals, recently submitted by NATO, which may exclude some trainer and interceptor aircraft from the CFE treaty. The analysis assumes that U.S. troops withdrawn from Europe to comply with the CFE treaty are demobilized even though the proposed treaty may not require demobilization of all the troops.

Under this alternative, active-duty personnel would eventually fall by about 107,000 below their level in 1990, a reduction of 5 percent (see Table 2). Civilian personnel would be reduced by 16,000 or 2 percent.

Dollar savings and personnel estimates for this and the other alternatives discussed in this statement are long-run estimates. All force changes

TABLE 1. LONG-RUN BUDGETARY SAVINGS (In billions of 1990 dollars)

	Alternatives				
Category	I Required Cuts Only	II Possible Administration Cuts	III Large Cuts with Cadres	IV Large Cuts More Reserves	V Large Cuts
Operating Costs					
Direct and indirect	7	13	20	20	31
Overhead	a/	8	13	13	19
Subtotal b/	7	21	33	33	50
Procurement	2	5	10	9	18
RDT&E	0	0	0	0	10
Military Construction/ Family Housing	0	1	1	1	2
Total	9	26	43	43	80

SOURCE: Congressional Budget Office.

NOTES: Numbers may not add to totals because of rounding.
RDT&E = Research, Development, Test, and Evaluation.

a. Because reductions are assumed to be made in a manner that responds to the treaties with only minimum changes, no overhead reductions are assumed.

b. Operating costs include funding for some spare parts that are bought out of procurement funds.

TABLE 2. LONG-RUN MANPOWER EFFECTS (Number of personnel in thousands)

		Reductions (-)/Additions (+) under Alternatives				
Category	1990 End Strength	I Required Cuts Only	II Possible Administration Cuts	III Large Cuts with Cadres	IV Large Cuts, More Reserves	V Large Cuts
Active-Duty Personnel						
Army	744	-77	-132	-199	-240	-272
Air Force	545	-22	-61	-101	-115	-139
Navy	591	-9	-57	-82	-99	-127
Marine Corps	197	0	0	- 20	-36	-56
Total	2,076	-107	-251	-401	-491	-594
Selected Reserves						
Army a/	756	0	-130	0	+75	-149
Air Force a/	201	0	0	0	+25	-19
Navy	153	0	0	0	+11	0
Marine Corps	44	0	0	0	+14	0
Total	1,155	0	-130	0	+125	-169
DoD Civilian Personnel						
Army	334	-15	-79	-103	-89	-132
Air Force	249	-1	-8	-15	-6	-44
Navy	337	0	-18	-29	-33	-49
Marine Corps	b/	0	0	-2	-4	-7
Total	1,018 c/	-16	-105	-149	-132	-231

SOURCE: Congressional Budget Office.

NOTE: Numbers may not add to totals because of rounding.

a. Includes changes to both the Reserves and National Guard components.

b. Included in Navy numbers.

c. Includes civilians in the defense agencies.

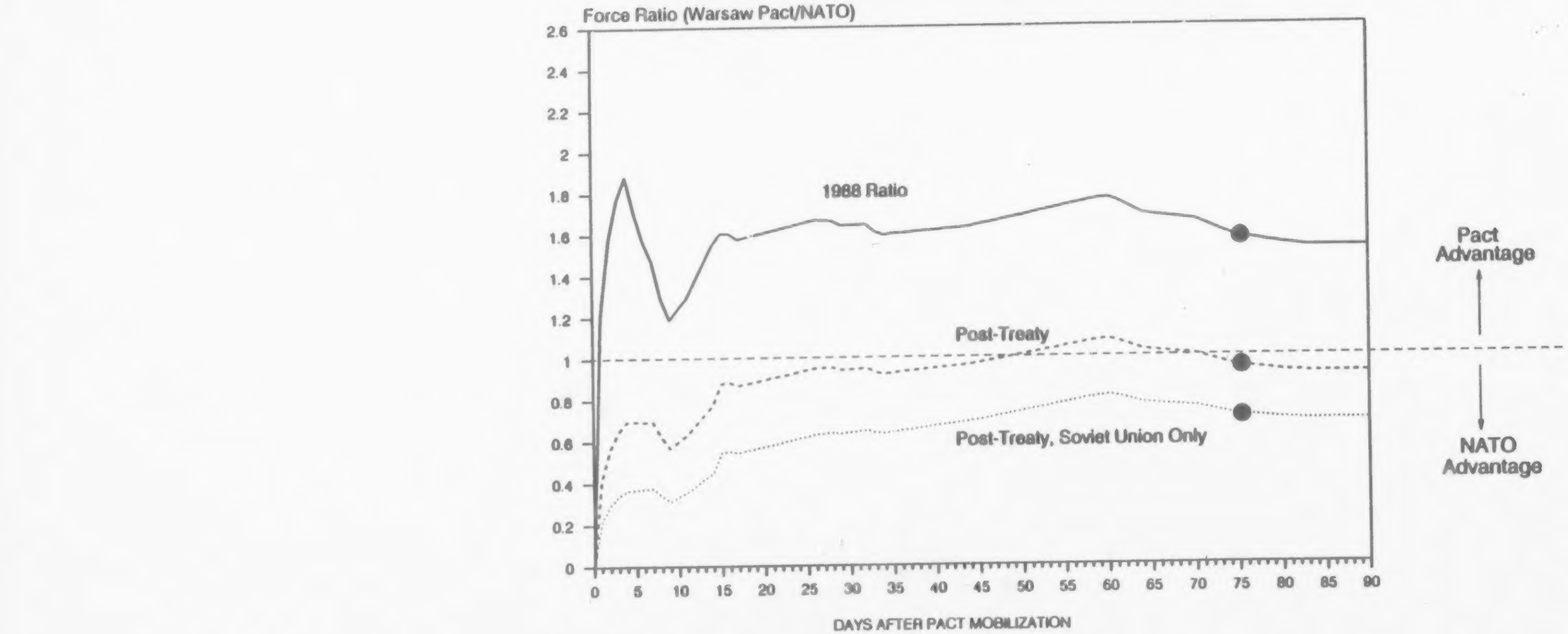
envisioned under the alternatives are assumed to have been made, and procurement budgets are assumed to have been adjusted to accommodate the smaller forces. Long-run savings are expressed in 1990 dollars of budget authority and represent savings relative to the 1990 level of the defense budget. Estimated savings reflect reductions in both operating and procurement costs. But the estimates do not reflect the added costs of verifying the proposed treaties, which cannot yet be determined with confidence.

Effects on Military Capability

How would this alternative affect military capability? The response to the START treaty envisioned under this alternative would maintain the rough parity in numbers of strategic warheads that exists today between the United States and the Soviet Union, but at the lower START levels. That would leave the United States with about one-quarter fewer warheads than it has today (see Table A-3). Most remaining U.S. strategic systems would be of modern vintage, having been deployed after 1980.

This alternative would also substantially reduce the risk that the Warsaw Pact nations could successfully invade NATO with conventional forces. Figure 1 illustrates this point. It shows the balance of Warsaw Pact and NATO ground forces in Central Europe at various periods after mobilization

FIGURE 1.
EFFECT OF ARMS CONTROL ON GROUND FORCE RATIO
IN CENTRAL EUROPEAN THEATER



Source: Congressional Budget Office

for war begins. Consider a period in Figure 1 about 75 days after mobilization begins, when both sides would have most of their forces in place (see the black dots in Figure 1). In 1988, before any of the unilateral force reductions now being made by the Soviet Union and other Warsaw Pact nations, the Pact-to-NATO balance of ground forces in Central Europe favored the Warsaw Pact by a ratio of 1.6 to 1--a figure that some viewed as unacceptable. After both sides carry out the treaty, however, the ratio would be roughly equal. If, because of political changes in Eastern Europe, NATO need only worry about an attack by Soviet forces, then this ratio of ground forces falls to 0.7 to 1, a level that would be highly favorable for a defensive alliance.

Ratios for tactical air forces under this alternative would be even more favorable to NATO (see Table A-4). Ratios for both ground and air forces are based on scoring methods that account for the quantity and quality of major weapons.

ALTERNATIVE II: IMPLEMENT POSSIBLE ADMINISTRATION PROPOSALS

The reduced military risk, coupled with recent political events, may permit larger force reductions than the minimum ones required to respond to the treaties. Indeed, DoD has said it will propose larger reductions. The department has not yet submitted a long-term plan that fully reflects the treaties and political events. However, in recent testimony before the Congress, the Secretary of Defense has suggested the elements of such a plan. The Congressional Budget Office (CBO) used this testimony as the main basis for constructing a possible Administration plan.

Under this plan, DoD would eliminate five Army divisions and five tactical fighter wings. The department would also comply with the START treaty but, judging from its 1991 budget proposal, would continue modernization of all strategic forces in the aggressive manner assumed under Alternative I. The Secretary has not yet been specific about Navy cuts but has indicated they are possible. For illustration, CBO assumed the elimination of 1 aircraft carrier and a total of 50 ships (see Tables A-1 and A-2 for details).

Effects on Military Capability

Under this possible Administration plan, strategic capability would remain substantial, but the plan would forgo part of the improvement in the balance of conventional forces available to NATO if it only makes the minimum reductions required by the treaty. For example, under this possible Administration plan, the Pact-to-NATO ratio of ground forces would be slightly higher (1.0 to 1) than the ratio if NATO makes only the cuts required by the treaty (0.95 to 1). But the ratio would still be substantially better than the 1988 ratio of 1.6 to 1. Moreover, if NATO need only worry about countering Soviet forces, then the ratio of ground forces under this alternative is a favorable 0.8 to 1.

Budgetary and Manpower Effects

Moreover, this possible Administration plan would eventually reduce the annual DoD budget by about $26 billion, leaving the department with a budget of about $265 billion in 1990 dollars. If carried out in even increments over five years, this budgetary reduction would result in real cuts of nearly 2 percent a year, the amount recently proposed by the Administration. Almost all the savings ($23 billion out of $26 billion) would be achieved through cuts in conventional forces, and percentage reductions in the budgets of the Army and the tactical Air Force--whose forces are designed primarily to help defend Europe--would be significantly larger than those in the budgets of the Navy and Marine Corps.

Under this possible Administration plan, active-duty manpower would be reduced by 251,000, about 12 percent of the 1990 level. Civilian personnel would be cut by 105,000 or 10 percent. There would also be a reduction of 130,000, or 11 percent, in the number of personnel in the selected reserves.

Roughly 30 percent of the dollar reductions represent cuts in what CBO labels "overhead," which raises an important issue for the Congress.

Overhead costs--which include portions of costs for activities such as headquarters, the training establishment, and the operation of military bases--are often assumed not to vary with relatively small changes in numbers of forces. They should vary with larger changes, but achieving reductions in overhead will require difficult choices beyond the decision to eliminate a military unit. For example, large reductions in overhead would certainly require closing and realigning military bases. If overhead reductions are not made, however, then cost savings associated with any particular force cut would be smaller, and more military units would have to be eliminated to achieve a specific target for savings in the defense budget.

ALTERNATIVES III and IV: MAKE LARGE ACTIVE FORCE REDUCTION BUT RETAIN THE FLEXIBILITY TO REBUILD

In response to recent political changes, the Congress could decide to reduce military forces more substantially than what might be proposed by the Administration. For example, the United States could maintain numerical parity with the Soviet Union in numbers of strategic warheads by keeping older systems, thus buying fewer modern Trident submarines, B-2 bombers, and small ICBMs (see Table A-2 for details). As for conventional forces, reductions could include 7 active Army divisions, 10 active tactical fighter wings, and 58 active ships (plus some strategic submarines that bring the total reduction of ships to 72).[3] For forces of the Army and the tactical Air Force, these reductions represent cuts of about 50 percent in forces planned for use in a European war--roughly the percentage reduction that the Warsaw Pact would be required to make under the proposed CFE treaty.

While opting for a large cut in active forces, the Congress could judge that the political situation in the Soviet Union and Eastern Europe will remain uncertain for many years. Thus, the United States might seek to retain the flexibility to rebuild its military forces in less time than would be required if all the trained personnel and equipment associated with these active units is eliminated. CBO examined two alternative means of retaining flexibility to rebuild: establishing cadre divisions (Alternative III) and making greater use of selected reserves (Alternative IV).

Establish Cadre Divisions

The cadre approach would convert five Army divisions from full active-duty status to cadre status. Instead of the roughly 12,000 troops assigned to an active-duty heavy division, each of these cadre divisions would retain on active duty about 3,000 commissioned officers (paygrades O-2 and above) and senior noncommissioned officers (paygrades E-6 and above). The mission of these cadre personnel would be to remain ready to fight a war in Europe by maintaining up-to-date war plans, performing limited training, and maintaining equipment. In the event of war, the unit would be filled out with individual ready reservists (personnel who have had active duty service but are not in the drilling reserve). Only those individual ready reserve (IRR) personnel who have been off active duty for fewer than 18 months would be assigned to fill out these cadre divisions.

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[3] In some cases, larger active-force reductions are made under the selected reserve alternative because reserve forces would be available after mobilization (see Table A-1).

The Federal Republic of Germany currently maintains cadre units and apparently plans to expand their use. German cadre units are quite similar in concept to those proposed here, though they differ in some of the details of their design.

Add to Selected Reserves

Alternatively, the United States could retain flexibility to rebuild its forces by increasing the number of selected reserve units. (Selected reserves are paid to drill part-time in peacetime.) The number of reserve units that could feasibly be added may be limited by recruiting problems. Nevertheless, the United States should be able to add 2 Army divisions, 5 tactical fighter wings, and 35 ships to its reserve forces.

The Similarities in Costs and Effects of Cadre and Selected Reserves

The approaches using cadre and selected reserves to maintain flexibility would be similar in many of their effects on costs and military capability. Coupled with cuts in active-duty forces, these approaches would each eventually reduce the annual defense budget by about $43 billion. Reductions in active-duty personnel would amount to 401,000 for the cadre approach and 491,000 for the selected reserve approach. Of course, the selected reserve approach would add a substantial number of reserve personnel (about 125,000).

The two approaches would also be similar in their effects on military capability. Both would result in the same changes in strategic capability--changes that should retain rough numerical parity with the Soviet Union in total warheads but provide somewhat less modern forces than Alternatives I and II. As for conventional capability, both would result in a Pact-to-NATO balance of ground and tactical air capability that is more favorable to NATO than the 1988 balance. The degree of improvement would differ somewhat between the two approaches, however, notably in the additional tactical air capability afforded by the selected reserve approach (see Tables A-3 and A-4 for details).

Differences in the Cadre and Selected Reserve Approaches

Important differences exist, however, between these two approaches, some of which argue against the cadre concept. It might be difficult to keep up peacetime maintenance and morale in a cadre division that has no junior troops. Also, the Army might have to move toward shorter initial enlistments in order to have enough IRR personnel to man the cadre units. Finally, unlike the selected reserves, the cadre units would not have trained together in peacetime, even in small groups. This might slow the cadre's mobilization or reduce its capability after mobilization.

However, there would also be advantages to cadres. After mobilization, cadre divisions would be manned entirely with experienced personnel, including an experienced active-duty corps of commissioned officers and senior noncommissioned officers. This factor could reduce the time needed to mobilize and enhance warfighting capability. Moreover, cadre divisions may be the only means of maintaining some capability to rebuild as many as five Army divisions quickly. It would probably be impossible to recruit enough personnel to maintain another five divisions of selected reserves.

The potential advantages of cadre divisions, coupled with the risks inherent in what for the United States would be a new concept, suggest the need for a test. The Army might, for example, create one or two cadre divisions and evaluate the success of the concept before attempting to create five of them.

ALTERNATIVE V: MAKE LARGE ACTIVE AND RESERVE CUTS

Responding to recent changes in world politics, the Congress could decide to begin now to make large reductions in active U.S. forces and some reductions in reserve forces. This final alternative would be consistent with a judgment that the CFE and START treaties are likely to be carried out and that the extensive political changes in the Soviet Union and Eastern Europe could not be reversed without substantial warning. The large force cuts under this alternative would also be consistent with a desire to reduce the annual defense budget by about $80 billion.

For strategic systems, the alternative would terminate all future buys of major systems, including rail MX missiles, small ICBMs, B-2 bombers, and Trident submarines. Older strategic systems would be retained in sufficient numbers to remain at the START limits (see Table A-2).

Cuts in active conventional forces would include 8 Army divisions, 10 tactical fighter wings, 91 Navy ships (plus 17 strategic submarines for a total reduction of 108 ships), and 1 Marine expeditionary force (3 brigades). Reserve forces would be reduced, though by smaller amounts--the equivalent of three Army divisions and a total of five tactical fighter wings. This alternative would also reduce spending for research and development.

Budgetary and Manpower Effects

In the long run, the changes under this alternative would cut the annual DoD budget by about $80 billion, leaving DoD with a budget of about $210 billion in 1990 dollars. Larger percentage reductions would come out of budgets for conventional forces and budgets of the Army and the tactical Air Force. Eventually, 594,000 personnel would be eliminated from active duty, leaving DoD with about 1.5 million active-duty personnel--a reduction of 29 percent below the 1990 level. Reductions in civilian personnel would total 231,000 or 23 percent. The selected reserves would also be reduced in size by 169,000 persons or 15 percent.

The savings under this and the other alternatives discussed in this statement would be altered, but not greatly, by changes in the proportion of the active-duty troops that are withdrawn from Europe. Roughly 150,000 or one-quarter of the troops demobilized under this alternative are assumed to be withdrawn from Europe (see Table A-5). The estimated savings of $80 billion would not change much in percentage terms if the fraction of troops based in Europe is altered. For purposes of estimating savings, the key decision is the number of units and troops, not their peacetime location.

Effects on Military Capability

Under this alternative, the United States should continue to maintain rough parity with the Soviets in total warheads but would have substantially fewer modern forces than in the alternatives I discussed earlier. Thus, fewer U.S. warheads would be likely to survive a Soviet attack and be available for retaliation (see Table A-3). Nevertheless, under the most likely type of Soviet nuclear attack--an attack with warning--the United States would still have 5,800 surviving warheads. This number of warheads would be substantial and would be about the same number as would have survived in 1982, a year before the effects of the strategic buildup of the 1980s were realized. In an era of reduced tensions, this strategic capability may be adequate.

Similarly, if the Warsaw Pact makes only the reductions in its conventional forces required by the CFE treaty, then the ratio of Pact-to-NATO ground forces under this alternative could climb back to 1.4 to 1, near the 1988 level. In view of the political changes in Eastern Europe, however, NATO might only have to worry about the threat from Soviet forces. In that case, even after the large reductions assumed under this alternative, the ratio of ground forces would be 1.1 to 1, much more favorable than the 1988 ratio and one that may well be acceptable to a defensive alliance like NATO (see Table A-4).

The forces available under this option should also be adequate to meet smaller military contingencies. Since World War II, military interventions (excluding the Korean and Vietnam Wars) required many fewer active-duty military personnel than would be available under this alternative. In the largest of these operations, the recent military action in Panama, the troops attributable to the operation numbered 27,000. Under Alternative V, the United States would have 1.5 million people on active duty, which should be adequate to meet such needs.

The large reductions under this alternative raise more difficult questions about the ability of the United States to mobilize for a future, major war. The key issue would be warning time. If the United States has made major reductions in its military, and a security threat begins to build up again, would this country recognize that change and allow itself the substantial time that would be required to reestablish a large, trained military? No one can know for sure. The risk of failing to act in time must be weighed against the costs of retaining a large military in a period when it may not be needed.

TIMING OF SAVINGS

Up to this point in my testimony, I have focused on changes in military capability and savings in the long run. But how quickly could these savings be realized?

Unfortunately, I cannot give you a precise answer because the appropriate timing depends on political judgments. For example, what pace of defense reductions is correct in view of the uncertainty about future developments in the Soviet Union? Also, what pace would be fair to military employees and to defense industries and affected communities in the civilian sector?

Reductions Over Five Years

From a management perspective, the alternatives discussed in this statement--including the largest one--could arguably be carried out fully, or nearly so, within the next five years. The largest reduction, if carried out in even increments over five years, would require annual real reductions in defense budget authority of 6.4 percent a year. That would be about the same as the reductions in the five years that followed the peak of the Vietnam War (which averaged about 6 percent a year) and much less than those that followed the Korean War (which averaged about 20 percent from 1952 to 1954).

Moreover, the personnel reductions under these alternatives should be manageable, even though they are larger than those the Administration proposes or has recently carried out. The largest alternative discussed in this statement would require reductions in active-duty personnel of about 120,000 a year for five years. Other alternatives would require personnel reductions averaging 20,000 to 100,000 a year. The Administration proposes a cut of 38,000 people in 1991 and cuts averaging 45,000 a year in the 1990-1991 period.

As for demobilizing military units, the largest alternative discussed in this statement would require demobilizing one and one-half Army divisions a year for five years. The Administration proposes demobilizing two divisions in 1991.

Reductions in 1991

Knowing that large reductions could be achieved over five years, however, may not meet all of this Committee's concerns. The Committee must also worry about meeting the Balanced Budget Act (Gramm-Rudman-Hollings) targets for 1991, which would require outlay reductions in defense and other parts of the budget. Therefore, at the Chairman's request, we have assessed the effects of a reduction in 1991 defense outlays of $15 billion below the CBO baseline. This cut is $12 billion larger than the reduction in outlays proposed by the Administration in its 1991 budget.

CBO can analyze the broader, longer-term policy changes that were the focus of the first part of my testimony with the tools and models that we have available. In contrast, we cannot fully assess the effects of a substantial reduction in outlays in a specific budget year, without making judgments for which we have neither the tools nor the expertise. The amount of outlays in the budget year that can be achieved from a particular policy change--and therefore the amount of policy change that is needed to achieve a $15 billion cut--depends on the details of program execution. How quickly, for example, could the military services discharge personnel or cut back on operating tempos in an effort to hold down outlays? Could a particular procurement or research contract be managed in a manner that holds down 1991 outlays? We are not experts in these details and so cannot fully assess the effects of the $15 billion cut.

We can, however, illustrate the kinds of changes you might have to make to achieve such a reduction in outlays. As a starting point, for example, consider the numbers in Table 3. They indicate how many dollars of budget authority would have to be eliminated in order to achieve an outlay reduction of $15 billion--the illustrative approach specified in the Chairman's letter of request. Table 3 also shows the reductions in each appropriation proposed by the Administration in its 1991 budget. To reduce outlays by $15 billion in 1991 would require reducing budget authority by about $35 billion below the CBO baseline, which is roughly $26 billion more than the reduction recommended by the Administration. In accordance with the Chairman's request, this approach makes larger reductions in the investment accounts--procurement and research and development--than in the operating and support accounts.

The relative size of these illustrative reductions would vary according to the category of defense spending. Let me discuss the general effects of these reductions on each major category. To reduce outlays by $15 billion, the appropriation for military personnel in 1991 would have to be reduced by slightly more than $4 billion in budget authority below the CBO baseline.

TABLE 3. ILLUSTRATION OF REDUCTIONS IN DEFENSE BUDGET AUTHORITY IN 1991 RELATIVE TO THE CBO BASELINE
(In billions of dollars)

	Budget Authority		
	CBO Baseline	Illustrative Reductions[a]	Administration Reductions[b]
Military Personnel	81.6	-4.2	-2.6
O&M	91.0	-7.4	-0.9
Procurement	85.9	-17.5	-8.0
RDT&E	38.3	-5.2	-0.4
Military Construction	5.5	-1.4	+0.1
Family Housing	3.4	-0.2	+0.1
Other DoD	-0.6	+1.5	+1.7
Subtotal DoD	305.1	-34.4	-10.0
DoE	10.0	-0.4	+0.9
Other Defense	.6	-0.0	+0.1
Total Defense	315.8	-34.8	-8.9

SOURCE: Congressional Budget Office.

NOTE: Table is based on the request of the Chairman of the Senate Budget Committee.

a. Outlay savings under this illustrative approach would total $15 billion.

b. Outlay savings under the Administration's plan would total $3 billion.

The Administration's plan for pay raises and personnel reductions and the transfer of funds for subsistence-in-kind to the O&M appropriation would achieve $2.6 billion of these savings. Additional reductions of 100,000 personnel would save about $1.4 billion in budget authority if the personnel reductions were made primarily through reductions in accessions. Savings would be less--and these additional personnel reductions would be larger--if the cuts involved involuntary separations, particularly if the Congress authorizes separation pay for enlisted personnel. The need for additional personnel reductions might be offset somewhat if the military pay raise was delayed or held below what was proposed by the Administration or if there were fewer promotions or permanent change of station moves than are envisioned by the Administration in its budget proposal.

Because a dollar of reduced budget authority for procurement results in only about 15 cents of outlay savings in the budget year, the procurement appropriation would have to be cut heavily to achieve outlay savings of $15 billion. Indeed, budget authority for procurement would have to be reduced by $17.5 billion below the CBO baseline. The Administration's budget proposal contains about $8 billion in savings. If the Congress accepted this proposal as a starting point, it would then have to reduce procurement by an additional $9.5 billion. As a guide to what choices you face if you want to cut procurement, Table 4 lists the 15 procurement programs for which DOD has requested the largest amount of money in its 1991 budget proposal. The table also lists other general categories of procurement spending that could

TABLE 4. THE ADMINISTRATION'S 1991 MAJOR PROCUREMENT PROGRAMS AND OTHER PROCUREMENT FUNDING (In billions of dollars of budget authority)

Program	Budget Request
Aircraft	
B-2 Bomber	3.8
F-16 Fighter	2.9
F/A-18	2.1
C-17 Transport	2.1
F-15E Fighter	1.8
F-14 Fighter	1.0
Ships[a]	
DDG-51 Destroyer	3.6
SSN-21 Submarine	3.5
Trident Submarine	1.4
LHD-1 Landing Craft	1.0
Missiles	
MX[b]	2.0
Trident	1.5
AMRAAM	1.3
Patriot	0.9
Tomahawk	0.8
Subtotal	29.8
Other Major Procurement	29.2
Other Procurement	20.0
Total	79.0

SOURCE: Congressional Budget Office based on Department of Defense budget documents for 1991.

NOTE: Costs include initial spares and financing adjustments for advance procurement. Numbers may not add to totals because of rounding.

a. Includes outfitting and post delivery costs for ships.

b. Includes costs for rail garrison basing.

be reduced. Of course, you will need to assess the national security implications of any such reductions in procurement funds.

Cuts in budget authority in the research, development, test, and evaluation (RDT&E) appropriation would produce larger outlay savings in the budget year than procurement cuts. On average, a reduction of $1 of budget authority for RDT&E reduces the outlays in the budget year by 53 cents. Table 5 lists the 15 largest RDT&E programs. A few--most notably the Strategic Defense Initiative--are quite large. But most are relatively small. Thus, RDT&E savings of more than $5 billion--which would be required under the illustrative approach--could only be achieved by changing a large number of programs.

In the operation and maintenance (O&M) appropriation, a major reduction of more than $7 billion below the CBO baseline would be required to achieve outlay savings of $15 billion. The Administration proposes a cut of only $0.9 billion. O&M is a diverse account that pays for a variety of items, including civilian salaries and expenses, small spare parts, fuel, minor building repairs, office supplies, and base operations. Because it is so diverse, it is hard to assess the effects of O&M cuts. Some O&M spending is related to the number of personnel on active duty. If military personnel reductions are greater than what the Administration proposes, then some additional reduction in the O&M account would seem appropriate.

It is reasonable to assume, however, that large O&M cuts would, among other things, require layoffs of civilian personnel, reductions in operating tempos of weapons systems, and postponement of repairs to DoD property that would adversely affect the readiness of the remaining military forces. In light of current world events, the Congress may judge that some reduction in

TABLE 5. THE ADMINISTRATION'S 1991 MAJOR RESEARCH PROGRAMS AND OTHER RESEARCH AND DEVELOPMENT FUNDS (In billions of dollars of budget authority)

Research Programs	Budget Request
Strategic Defense Initiative	4.5
B-2 Bomber	1.6
Advanced Tactical Fighter	1.0
Milstar Satellite Communication System	0.8
ICBM Modernization	0.8
C-17 Transport	0.5
Light Armed Scout Helicopter	0.5
Submarine Combat System	0.3
P-3 Anti-Submarine Aircraft Modernization	0.3
Joint Surveillance/Target Attack Radar System	0.3
Air Defense Initiative	0.2
Fixed Distribution System	0.2
Balanced Technology Initiative	0.2
Space Technology	0.2
Anti-Satellite Weapon	0.2
Subtotal	11.6
Other Research and Development	26.5
Total	38.1

SOURCE: RDT&E Programs (R-1), Department of Defense Budget for Fiscal Year 1991.

NOTE: Numbers may not add to totals because of rounding.

readiness is acceptable. Moreover, some of these savings may be achieved through efficiencies, thus minimizing reductions in military readiness.

I have been quite general in my discussion of the effects of reductions in outlays in order to be brief. I have also focused more on actions required to produce savings rather than their effects on national security. If you would like some specific examples of how reductions might be made in each of these appropriations, you can find them in the CBO report Reducing the Deficit: Spending and Revenue Options, which we released last month as part of CBO's annual report. This volume discusses the costs, as well as the security advantages and disadvantages, of 28 specific options for reducing defense spending. The report makes no attempt to propose a coordinated plan for cutting defense. Thus, it does not represent a blueprint for how to achieve a particular reduction in outlays, but the report does provide specific examples of possible reductions.

Clearly, it would be best to develop a long-range plan for altering U.S. defense forces that reflects a consensus about emerging security threats. You could then impose annual reductions in defense budget authority that are consistent with that long-term plan and with judgments about how quickly the threats to U.S. security are receding. Under this approach, outlay reductions would depend on timing and management details that are best left to managers in the Department of Defense. I understand, however, that you do not have the luxury of ignoring 1991 outlays, and I have tried to be helpful in discussing the general problems and prospects associated with a $15 billion reduction in outlays.

CONCLUSIONS

In my testimony, I have described alternatives that could eventually reduce the annual defense budget by between $9 billion and $80 billion. Reductions in military personnel would range from about 100,000 to almost 600,000. Civilian personnel would be reduced from 16,000 to more than 250,000. Under pessimistic assumptions about future threats to U.S. security, the largest of these reductions would leave the balance of conventional military forces in Europe near the level of the recent past. Under more optimistic assumptions, which are well on their way to becoming the most realistic assumptions, even the largest of these alternatives would result in a balance of forces that may well be acceptable.

The demands of deficit targets may require large outlay reductions in 1991, and I have specifically discussed the general effects of a $15 billion reduction in 1991 outlays. However, if we could plan today where we want to be in five years, and could focus on that five-year plan rather than on annual deficit targets, then getting to any set of alternative military forces could be more efficiently managed.

APPENDIX TABLES

TABLE A-1. CHANGES IN SELECTED CONVENTIONAL FORCE STRUCTURES

		Reductions (-)/Additions (+) Under Alternatives				
Category	1990 Level	I Required Cuts Only	II Possible Administration Cuts	III Large Cuts with Cadres	IV Large Cuts, More Reserves	V Large Cuts
Army Divisions						
Active	18	-2	-3	-7	-7	-8
Reserve/cadre	10	0	-2	+5[a]	+2[b]	-3[c]
Air Force Tactical Wings						
Active	24	-2	-5	-10	-10	-10
Reserve	12	0	0	0	+5	-5
Navy Ships						
Active	518	-11	-50	-72	-103	-108
Reserve	33	0	0	0	+35	0
Marine Corps Brigades						
Active	9	0	0	-1	-2	-3
Reserve	3	0	0	0	+1	0

SOURCE: Congressional Budget Office.

a. These would be cadre divisions in peacetime.

b. These would be reserve divisions.

c. While the equivalent of three divisions would be eliminated, only two headquarters would be eliminated.

TABLE A-2. STRATEGIC FORCE LEVELS

		Alternatives				
Category	1990 Level	I Required Cuts Only	II Possible Administration Cuts	III Large Cuts with Cadres	IV Large Cuts, More Reserves	V Large Cuts
Land-Based Missiles						
SICBM	0	500	500	250	250	0
Rail MX	0	50	50	50	50	0
Silo-based MX	50	0	0	0	0	50
Minuteman III	500	0	0	295	295	500
Minuteman II	450	0	0	0	0	0
Bombers						
B-2	0	132	132	66	66	15
B-1	97	97	97	97	97	97
B-52	186	0	0	0	0	23
Submarines						
Trident	11	23	23	20	20	17
Poseidon	23	0	0	0	0	0

SOURCE: Congressional Budget Office.

TABLE A-3. DETAILS OF EFFECTS OF ALTERNATIVES ON U.S. STRATEGIC CAPABILITY

Category	1990 Level	Reductions Under Alternatives				
		I Required Cuts Only	II Possible Administration Cuts	III Large Cuts with Cadres	IV Large Cuts, More Reserves	V Large Cuts
Total On-Line Warheads	11,800	8,900	8,900	8,600	8,600	8,600
Surviving Warheads						
Attack w/warning	8,400	7,500	7,500	6,600	6,600	5,800
Attack w/o warning	4,600	3,700	3,700	3,200	3,200	2,900
1982 Levels for Reference						
Total On-Line Warheads					8,100	
Surviving Warheads (With warning)					5,600	
Surviving Warheads (Without warning)					3,300	

SOURCE: Congressional Budget Office.

TABLE A-4. EFFECTS OF ALTERNATIVES ON SELECTED INDICATORS OF MILITARY CAPABILITY

		Alternatives				
	1990 Level a/	I Required Cuts Only	II Possible Administration Cuts	III Large Cuts with Cadres	IV Large Cuts, More Reserves	V Large Cuts
Strategic Forces						
Soviet/U.S Ratio of On-Line Warheads	0.9:1	0.9:1	0.9:1	0.9:1	0.9:1	0.9:1
U.S. Number of Surviving Warheads b/	8,400	7,500	7,500	6,600	6,600	5,800
Conventional Forces						
Ground Forces c/						
WP/NATO Ratio	1.6:1	0.95:1	1.0:1	1.2:1	1.3:1	1.4:1
Soviet/NATO Ratio	1.2:1	0.7:1	0.8:1	0.9:1	1.0:1	1.1:1
Tactical Air Forces						
WP/NATO Ratio	1.2:1	0.7:1	0.8:1	1.0:1	0.9:1	1.1:1
Soviet/NATO Ratio	1.0:1	0.6:1	0.7:1	0.8:1	0.8:1	0.9:1
Navy Ships						
Total	551	540	501	479	483	443
Carriers d/	14	14	13	12	12	10

SOURCE: Congressional Budget Office.

NOTE: See forthcoming paper for discussion of methods used here (CBO paper titled Meeting New National Security Needs: Options for U.S. Military Forces in the 1990s, February 1990).

a. Ground force ratios based on Pact forces available in 1988, before any of the ongoing unilateral reductions.

b. Estimates assume warning of an attack.

c. Estimates assume enough time has elapsed so that most forces are in place.

d. This represents deployable carriers.

TABLE A-5. ACTIVE UNITS AND ACTIVE-DUTY PERSONNEL IN EUROPE

		Reductions Under Alternatives				
Category	1990 Level	I Required Cuts Only	II Possible Administration Cuts	III Large Cuts with Cadres	IV Large Cuts, More Reserves	V Large Cuts
Army Divisions	4 2/3	2	2	2 1/3	2 1/3	2 1/3[a]
Air Force Wings	8	2	2	4	4	5[a]
All Services End Strength (In thousands)	325[b]	80	80	100	100	150

SOURCE: Congressional Budget Office.

a. These alternatives assume sufficient changes in headquarters and noncombat personnel to reduce the total number of Army and Air Force personnel in Europe by one-half.

b. This number does not reflect any effects of the legislative requirement that personnel in Europe be reduced to 312,000 by the end of 1991.

Chairman SASSER. We are going to go to Senator Wirth, who I think is going to be called back to the floor shortly. Senator Wirth, do you have any comments at this time?

Senator WIRTH. Mr. Chairman, I have to leave and I just wanted to thank the gentleman from CBO and Gordon Adams for their great help, and others, on this extraordinarily important issue. I think this is one of the—is going to turn out to be one of the hottest political issues around. We must respond to that as a Congress, it seems to me, to meet the expectations of the American public.

And, second, it seems to me that the proposed cuts have got to be very significant. If we don't start now, we are never going to get there, particularly if we add in the bow wave issue that came very loud and clear to us from Mr. Bowsher at the General Accounting Office. And you all are laying out a set of options, and I know Gordon has a set of options as well. It is just very, very useful to us.

I thank you very much, Mr. Chairman. I am sorry to have to depart to go to clean air. Let us get clean air off the docket and then we can get back to this one. Thank you.

Chairman SASSER. Thank you. We look forward to getting clean air off the docket. I wish you godspeed in that endeavor.

Mr. Mayer, in recent testimony before the House Armed Services Committee, the Director of the Central Intelligence Agency, William Webster, said it is highly unlikely that there is going to be a reversal of the collapsing military threat from the Soviet Union and from Warsaw Pact forces in Eastern Europe. Highly unlikely even in the event that Gorbachev is ousted from power and should be replaced by a repressive hardliner.

Now, I am struck by the fact that much of your analysis of the effects of the various options on the U.S. military capability and our position vis-a-vis the Soviet Union does not reflect these changes that Bill Webster was talking about, nor his assessment that they are irreversible.

Your study, as I understand it, has looked at force levels that would be required as we adjust to the Conventional Forces Europe I agreement and to the START I Treaty. Also, in your study you assume that the Eastern Europeans are going to continue to fight with the Soviets.

Frankly, that makes about as much sense to me as a Director of British Intelligence, in 1861, looking at the Union Army and the Confederate Armies and putting them both together and conclude they would fight as one entity. I do not believe that we are going to see Eastern European armies and the Soviet Union fighting together any time in the near future.

Well, my question is this. If, indeed, the Director of the CIA, Mr. Webster, is correct and the current positive trends in Eastern Europe and the Soviet Union continue, is it unrealistic to talk of a united and cohesive Warsaw Pact?

Mr. MAYER. Sir, as I said in my testimony, I think that the assumptions about the Eastern Europeans are quickly becoming true, and, based on those assumptions, the balance that would remain would certainly be an acceptable balance as far as NATO is concerned.

In the study, we tried to create a range of uncertainty, and we looked at what the balance would be against the Warsaw Pact if the Eastern Europeans played, and we also looked at it if NATO were matched only against the Soviet threat.

Chairman **Sasser**. Well, what I am driving at is this. Given Webster's assessment as to what has occurred in the Soviet Union and in Eastern Europe, our relative military position vis-a-vis the Soviet Union is greatly enhanced and the threat from the Soviets is greatly reduced.

Now, if you crank that into your equation, would we have the option for even larger cuts than you call for in your study?

Mr. **Mayer**. Senator, I think if Mr. Webster's assessment is correct, then the assessment that we give is somewhat pessimistic, and so larger cuts may be appropriate.

Chairman **Sasser**. In other words, when you say pessimistic, your study is pessimistic from the point of view of favorable developments for the United States in a balance of power situation with the Soviet Union?

Mr. **Mayer**. At the time that we did the study we did not have the advantage of Mr. Webster's testimony, so his assessment was not calculated into the study.

Chairman **Sasser**. The point I am making is the case could be made that your study is extraordinarily conservative or very conservative given the recent developments and the statements made by the CIA Director.

Mr. **Mayer**. Certainly some people could view it that way, Senator. That was not our intention.

Chairman **Sasser**. Well, I choose to view it that way.

Mr. **Hale**. Can I add to that, Mr. Chairman?

Chairman **Sasser**. Yes.

Mr. **Hale**. May I add to that briefly?

Chairman **Sasser**. Sure.

Mr. **Hale**. I think Alternative V in our study does make cuts sufficient in size so that, if only the Soviet Union is an opponent, there is a rough balance of forces in Europe, and in that sense it is a big cut. It may fairly respond to a world in which you think the Eastern European nations don't play.

So, I agree with the general thrust in, Mr. Mayer's response. But I think there are those who would argue that that Alternative V is consistent with a world in which the Eastern European nations are not a player.

Chairman **Sasser**. But now the deficit reduction task that faces this Congress this year is exceedingly difficult. According to the administration's estimates and projections, which are optimistic to say the least, the Gramm-Rudman-Hollings legislation is going to require a $37 billion deficit reduction in 1991.

Now, if we are to reach this level, all sectors of the Federal budget are going to have to contribute their fair share to deficit reduction.

Now, when we look at the President's budget, we find that defense contributes only $3 billion towards this $37 billion deficit reduction target despite the fact that defense constitutes 50 percent of the total discretionary spending in this budget.

Now, fortunately, because of these changes of a momentous nature in Eastern Europe and the Soviet Union, most analysts conclude that we can protect our security, or protect United States security interests with defense expenditures significantly below current policy levels.

If the cuts are apportioned in the manner you described in your testimony, is it your understanding that the forces shown on this chart here are consistent with the funding levels provided in your illustrative plan of cutting $15 billion?

Mr. **Mayer**. Senator, certainly the forces that are presented right here would be consistent with a personnel reduction of 100,000 below the number that existed in 1990, as illustrated on the chart.[1]

Chairman **Sasser**. I just want to go back over this chart to make sure that we fully understand it. In other words, the administration is proposing a cut in active divisions to 16. If we cut $15 billion in outlays, this would just require the cutting of one additional Army division. We would have 15 active Army divisions left and 10 reserve divisions.

The administration wants 36 tactical fighter wings. We would cut two tactical fighter wings under our $15 billion proposal, but 34 tactical fighter wings would be left. The administration wants 14 carrier battle groups. We would cut one carrier battle group, but 13 carrier battle groups would be left along with a 529-ship Navy.

I say this, Mr. Mayer, to drive home the point of the massiveness of the force that is left if we begin with what now is starting to look like a modest $15 billion cut in outlays for fiscal year 1991. And that chart accurately reflects what a $15 billion cut would do; is that correct?

Mr. **Mayer**. Senator, in the way we did the calculations, there was an additional 100,000 person cut. The 1.9 million people who are left could allow you to man that force structure.

Chairman **Sasser**. Right. Well, you are talking about 1.94. We got now about 2,076,000 people under arms. Correct?

Mr. **Mayer**. Correct.

Chairman **Sasser**. You are talking about cutting it down to 1.94 million. That is about a 136,000 reduction, roughly.

Mr. **Mayer**. Correct.

Chairman **Sasser**. Well, let me ask you, and if this isn't correct, Mr. Mayer, and I don't know if you know the answer to this or not, but just through attrition and change, resignations, et cetera, isn't there about a 200,000-man, and woman, turnover in the military establishment every year anyway?

Mr. **Mayer**. I believe the number is about 300,000, Senator.

Chairman **Sasser**. About 300,000. All right.

Well, I don't want to take too much time here. Senator Kasten, do you have any questions of these witnesses?

Senator **Kasten**. Mr. Chairman, I just have a brief question.

Your book here has different kinds of suggestions. My understanding of a summary of the book at least is that you developed 28 options for cutting defense. How did you develop these 28 options?

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[1] See p. 304.

Let me just go further, and then you can answer the second question also. If you add up your 28 defense budget cuts, which include a number of things that I think we would not support—certainly unpopular cuts like cutting the pay raise by 2 percent, eliminating 120,000 troops, although there may be support of eliminating that many. You have talked about ending independent R&D.

If you took all, the whole package, and everything that you have suggested here went through, that only adds to $13.1 billion—with all of your suggestions. Number one, I want to find out a little bit how you developed these particular options.

But, if we did everything, we still would only get to $13.1 billion, and there are things in this list that I think it is very unlikely that the Congress would do. To me, that just points up what a tough job it is to make anything close to the kind of reductions that some are talking about.

Mr. **Mayer**. Sir, when we put the report together, it was not intended to reflect all of the options that could be done. The fact that one option is in there doesn't constitute a recommendation, nor does the fact that something is omitted mean that the omission is also a recommendation.

The staff puts this together as ideas for the Congress to consider, and it is basically only that; it represents ideas for the Congress to consider. We don't necessarily subscribe to the idea that they should be added up and looked at as a list of things to do in order to reduce the budget.

Senator **Kasten**. If I do as I did, or as we did, add them up, even the tough ones, and still only get to $13.1 billion——

Mr. **Mayer**. That is correct, Senator.

Senator **Kasten**. It suggests that some of the numbers that are floating around are going to be very, very tough to work with without going beyond even the options that you considered.

Mr. **Mayer**. I would agree that some of the numbers are difficult numbers, Senator, and certainly you are going to have to consider other options that aren't considered in here in order to achieve those numbers.

Senator **Kasten**. Mr. Chairman, thank you.

Chairman **Sasser**. Thank you, Senator Kasten.

Senator Exon?

Senator **Exon**. Mr. Chairman, thank you very much. I just have one or two questions and then I must leave.

I have looked into your background and credentials, Mr. Mayer, and I believe those credentials would provide you with a little bit of insight to make some recommendations to the committee aside from giving us a bunch of options, which I think your options are well spelled out and well done. It would appear to me that, looking at table A2,[1] that if we went clear to the right under 5 and said very large cuts, that would be, in essence, as I can tell would not only make significant reductions but for all pretense and purposes would relegate the national defense of the United States to a diad as opposed to a triad.

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[1] See prepared statement p. 305.

But, in any event, would you hazard a guess. From the recommendations that you have given us, that if you were sitting at this table instead of that table down there, which one would you select?

Mr. **Mayer**. Senator, I really cannot give you a recommendation as to what you should do.

Senator **Exon**. I was afraid of that.

Mr. **Mayer**. Those are hard choices, and those are choices the Congress is going to have to make.

Senator **Exon**. No; but I am talking about—you are a graduate of West Point, is that right?

Mr. **Mayer**. Yes, sir.

Senator **Exon**. If you had chosen the military to continue your career and were in the position of General Powell at the present time what would you tell us?

Mr. **Mayer**. Senator, if I was in General Powell's position, I might not differ from what General Powell is saying.

Senator **Exon**. I can only conclude that we wasted our money training you. [Laughter.]

Chairman **Sasser**. You ought to get into politics, Mr. Mayer.

Senator **Exon**. Well, I have to leave. I just hope that maybe in some of the questioning we can get down to the structure as to what people who have studied this—and I was being facetious. I know you have done a good job. I think you have responded very well to what the chairman has asked you to do.

I guess some of the decisions—if you could help us out along some of the decisions that we have to make with your obvious expertise in the area, I wish that I had time to ask you to speak as an individual with your background, rather than in the position that you are now in.

But I understand that. And, if you can elaborate on that in something for the record, why I will be interested in taking a look at it.

Thank you very much. And thank you, Mr. Chairman.

Chairman **Sasser**. Thank you, Senator Exon.

Senator Conrad?

Senator **Conrad**. Mr. Chairman, I would ask Mr. Mayer if, in putting together these suggestions, I assume that what he has concentrated on is the military question and the military equation, and there has not been an assessment of our economic position in the world and our economic vulnerability. Would that be a correct interpretation?

Mr. **Mayer**. That is correct, Senator.

Senator **Conrad**. Let me just say that for this Senator I think that we have been engaged in a self-deception of massive proportions for that very reason, and I find that happening not because we don't have very good people working on the problems, but because we work on problems in isolation and there is a disconnect when we have a committee structure, as we do, that isolates independent parts of the equation.

Our failure is in bringing all of these parts of the puzzle together. And the basic premise that you have just outlined, that is the basis for these considerations, I think, illustrates it.

And, while we are out, basically, being bean counters, what we have got, what our adversaries have, we lose the bigger picture.

Some have said the cold war is over, Japan and Germany have won, and I very much am concerned.

In looking across the globe and seeing our position and what is happening to our economy, and looking at Japan and Germany and looking at the Soviets, I see a very distinct lesson, and that lesson is we have concentrated on the separate elements and have not paid attention to how it all comes together.

I, too, appreciate the work that you have done. I just want to use it as a lesson for all of us. That somehow we don't concentrate on the big picture here.

What happens when you don't have economic strength, it is divorced from military strength, I think you miss what has to be the conclusion. When I was in the Soviet Union I visited with some of the top military leaders in the Soviet Union, and I asked them, "What is going to happen here to your military strength when your world position economically keeps slipping?"

In fact, while I was there a study came out that indicated Korea's economy was going to surpass the Soviet economy at the end of the century. And I tell you the Soviets were apoplectic. Apoplectic! Including the military leaders.

And one of the top Soviet leaders said to me, "You know, we finally figured out we are not going to be a military power when we are an economic basket case."

Now, we are not an economic basket case, certainly. We are in a much different position than our Soviet friends. But at the same time our relative position in the world, relative economic strength is certainly eroding.

Let me ask you—has there been, in all these analyses of our military position, has there been any component of our economic position included?

Mr. **Mayer**. Certainly, in the work that we have done in support of my testimony, we have not looked at the economic aspects of it.

Mr. **Hale**. I think, Senator Conrad, more broadly, CBO has produced work that does look at the effects, for example, on the deficit and savings, but they are not issues that Jack or I have worked on.

Senator **Conrad**. All right. Well, I thank you for that.

Chairman **Sasser**. Thank you, Senator **Conrad**.

One final quick question, Mr. Mayer. We note that in the President's budget that he has funding for a number of strategic offensive and defensive systems, and there has been much criticism of the administration's budget for failure to adequately react to the changes that have occurred with regard to the perceived threat and to make the choices to balance the defense requirements and the defense program, et cetera.

Now, seven of these strategic programs—the B-2, the Trident II, the so-called Peacekeeper, the Short Range Attack Missile II, the Advanced Cruise Missile, the Trident submarine, the SDI program—actually have been increased by $4 billion over last year's level of $18 billion.

In light of Mr. Webster's comments, how can acceleration of our effort in these programs be justified? And is it really necessary to press full speed ahead on these strategic systems?

What will be the effect on the U.S. deterrent if one or all of these programs are canceled or deferred?

Mr. **Mayer**. Senator, certainly, as I mentioned in my testimony, that even if we did not buy any of the strategic modernization systems, as illustrated under Alternative V, we would still have a large deterrent that would be able to meet the START requirements.

We would have older systems, and they would be less survivable than the force that the administration plans. However, even assuming an attack by the Soviet Union where we had warning, we would have 5,800 surviving warheads, which is a significant force.

Chairman **Sasser**. Well, Mr. Mayer, we thank you for your appearance here this morning and your testimony, and we will continue to read and digest the report that you and your colleagues at CBO have produced with great interest.

Our second panel consists of three knowledgeable experts on U.S. security policy and defense budgets. We are pleased to have Dr. Gordon Adams with us today, who is the founder and Director of the Defense Budget Project, a nonpartisan, nonprofit research organization that provides analyses of defense budget issues.

He is joined by Mr. Frank Gaffney, who is currently the founder and Director of the Center for Security Policy, also a nonpartisan, nonprofit research organization. Mr. Gaffney served as Deputy Assistant Secretary of Defense for Nuclear Forces and Arms Control Policy from 1983 to 1987.

And our third panelist is Dr. Joshua Epstein, a Senior Fellow at the Brookings Institution. Dr. Epstein is author of a soon to be released book entitled "Conventional Force Reductions: A Dynamic Assessment", which I assume, Dr. Epstein, will be available at your local bookstores shortly.

Gentlemen, on behalf of the committee I would like to welcome all of you this morning and thank you for giving us the benefit of your views.

We have got a relatively short period of time, so if we could begin with you, Dr. Adams. If you could summarize your views and testimony, it would be very helpful.

STATEMENT OF DR. GORDON ADAMS, DIRECTOR, DEFENSE BUDGET PROJECT

Dr. **Adams**. I will be very brief, Mr. Chairman, and introduce my statement for the record.[1]

I am the Director of the Defense Budget Project, which is a nonpartisan, nonprofit research organization, in Washington, that works on defense budget policy and spending issues, and I am grateful for the opportunity to testify this morning before the committee that deals with what is probably the most critical issue I think the Congress is going to face this year, how to deal with the defense budget in the framework of a rapidly declining threat and the requirements of deficit reduction.

I will just briefly summarize some points and introduce the rest of my testimony in the record. Obviously, it is clear to this committee, as it is to many in the Congress, that you are now in a sense in terra incognita with respect to strategy on national security matters. About the only time in history that I can think of us having been in this position, is probably the point in time where we initially addressed containment back at the end of the 1940s. The containment policy has, clearly, had some pay-off. The steadfast alliance commitment to containment is, obviously, one of the factors contributing to the failures of Soviet international policy and it has imposed large domestic costs on them.

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[1] See p. 320.

This committee is dealing, in a sense, with the first post-cold war defense budget, which puts you in a unique position. Your job, of course, is to reconcile the short-term goal of spending reductions and deficit reduction with the long-term goal of sound and prudent national security planning.

Secretary Cheney's budget goes a certain part of the way, is perhaps, the first step on the road in this direction. I think the Secretary should get some credit for being the first Secretary of Defense since Melvin Laird to tell the Services that they cannot get well in the out-years, they have to think about how they will get real.

Within the Cheney budget, the top priority is probably strategic modernization programs, whose funding grows quickly. There is a general commitment in that budget, which I will return to a moment, to funding the next generation of military hardware—a bow wave, if you will, of military hardware, with a large number of programs in the budget.

There is a general commitment to begin a process of personnel reductions. If you stretch that out over the 5 years and look at what has been said, you might be saying, "We had a hardware buildup in the 1980's. It looks like we may have a people build-down in the 1990's."

There is a commitment in that budget to protect readiness. But there are problems, clear problems that are evident to you, with the Cheney budget. One, the spending level is clearly still unrealistically high. And, secondly, it does not yet reflect a coherent philosophy or sense of strategy that ought to guide the kinds of choices that are being made in that budget.

Thus the dilemma passes on to you, leaving it in the hands of the Congress, which must, obviously, handle its own approach to the build-down wisely and prudently. I would suggest that you need to plan for a medium-term reduction of forces scaled to a declining threat, while providing adequate hedges against uncertainty with fewer resources than those provided for in the Secretary of Defense's budget.

The first thing, obviously, that has to drive your considerations, and here I will simply do no more than quote General John Vessey, to add to the list of CIA Director Webster and, apparently, the Defense Intelligence Agency and others.

General Vessey said in testimony about a month ago the Warsaw Pact as we knew it, a tightly knit, centrally directed tool, actually a creation of the Soviet Union, seems to have disappeared before our eyes in recent months, and the probability of a Warsaw Pact attack on NATO has plummeted.

The changes that that reflects are very evident to you. I won't bother to recite them. Obviously, the most critical is probably the disappearance of the Warsaw Treaty Organization as a coherent fighting organization, and the increase therefore even from the original numbers that we had last year from CIA and DIA on the warning time that NATO would have of an attack.

My sense is that the administration is right in trying to exploit that position to take further advantage of the Soviets' willingness to cut forces and move to a second round of conventional force reductions rather quickly.

Now, all of these changes that have taken place don't lead me to conclude that it is time for unilateral disarmament or withdrawal from involvement in global affairs. We are involved in global affairs whether we like it or not, and we will continue to be.

The question is what kinds of forces and what kinds of budgets are appropriate to that involvement? Let me suggest some guidelines that I think may help the committee to reconcile these objectives of sound and prudent medium-term planning and the initial short-term requirement that you have for deficit reduction activity.

I recognize the temptation in dealing with this problem of the deficit to try to use gimmicks that move outlays from 1 year to another or target high spending accounts like military personnel in order to try to get the number down quickly. I am not happy with planning national defense that way, and I am certain the members of the committee aren't either. Outlay projections are always an uncertain and moving target. But more important, every year that we exercise the option of the fast spending accounts, we move the choices into the next year and they get tougher year by year by year as we go out.

I am not going to wave a magic wand and drive this problem out of your consideration, but I would propose instead that you consider permitting a slightly higher outlay target in 1991 than you might otherwise wish, while taking a very tough look at budget authority, the resources which are going to drive defense outlays into mid-decade. A balanced approach, if you will, with a series of options in it.

And let me suggest four guidelines that I think might help your consideration. First, although cuts in military personnel provide short-term outlay savings, you need to think about personnel requirements in terms of the size of the force that would be appropriate by mid-decade and the rate of change that you need in order to approach that number.

Second, in the area of military readiness, take into account the major increase in warning time which would allow the Services to reduce operating tempos and training times below current levels.

Third, with respect to the modernization of military hardware, consider slowing the arrival of the next bow wave by deferring full production of a number of the new systems and, perhaps, canceling production plans for others.

And, finally, with respect to research and development, make sure that an active R&D effort continues as our strongest hedge against uncertainty.

There is more in my statement about each of these points and I would be happy to respond to any questions that you have about them, Mr. Chairman.

I believe that these guidelines suggest an approach to the budget which may help us meet an appropriate outlay target, while at the same time setting appropriate force and hardware goals for mid-decade. I acknowledge, and I think we all need to acknowledge, that this is not an easy course to follow. Declining defense budgets do require difficult choices and do cause pain. None of these decisions are easy, all require careful planning.

For those who are concerned about what would result from this approach, a sharp reduction in budget authority with a relatively smaller reduction in outlays, it is, I think, useful to point out that Defense Department outlays have been higher than budget authority in 14 of the 45 years between 1946 and 1990.

Chairman SASSER. Would you repeat that, Dr. Adams?

Dr. ADAMS. Yes, indeed. The point I am making is that some who are concerned, Senator, that the number on the BA side of this approach would go down and end up being below the outlay level, and that looks like a very dramatic cut.

What I am suggesting is that 14 out of the 45 years since the end of the Second World War the defense budget authority and outlays have been in precisely that relationship, especially in years where we have exited from a war.

We find that the budget authority does come down more sharply because those are the choices that you are making that drive the out-year outlays while the commitments you made in war time or in the time of high budgets that we have just been through continue to drive your outlays at a relatively high level.

The important question that you need to answer—and I think, Mr. Chairman, you focused on this today with the table and other statements—is will the necessary future military capabilities be adequate? Let me just tick off four points very briefly.

A defense budget at the level that the CBO's $15 billion cut option described this morning, the budget authority would be $48 billion higher in constant dollars than the peacetime average of defense budgets between 1955 and 1980. Outlays would remain $65 billion higher in constant dollars than they were during the so-called decade of neglect, the 1970's.

The force structure under this change, the force structure that you in part described in this table, remains quite significant. The number of Army divisions would be one lower than in 1980, three higher than in 1975. The Navy would be 50 ships larger than in 1980, including one additional carrier battle group. The Air Force would retain 34 air wings, down from 37 in 1980. We would retain a significantly modernized force moreover, thanks in part to the bow wave that we have just been through in military hardware procurement.

I suggest in my testimony at one point that generally we turn over a generation of equipment every 20 years. We are now on a track in the Secretary's budget that would push us into a faster turnover of a generation of hardware, which we could slow down.

I would argue, in fact, that if we accepted an accelerated introduction of the next generation, our risk, because of declining budgets, would be to produce actually smaller numbers of equipment in the 1990's, leaving less on the tarmac than the military itself might want to have.

In conclusion, let me emphasize that it is crucial to begin the process of adjusting to change with careful planning rather than delay it from year to year until the bottom falls out. Ideally—and I know the committee would share this in theory—the process should proceed as a dialogue between both ends of Pennsylvania Avenue, though that may be wishful thinking at this point. If Congress must proceed alone, I hope some of the guidelines I have suggested seem appropriate.

Thank you, Mr. Chairman.

Chairman SASSER. Thank you, Dr. Adams. And we will have questions later.

[The prepared statement of Dr. Adams follows:]

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TESTIMONY OF

DR. GORDON ADAMS

DIRECTOR, DEFENSE BUDGET PROJECT

before the

SENATE BUDGET COMMITTEE

on

DEFENSE BUDGETS IN THE 1990S: RESOURCE AND FORCE PLANNING IN THE CONTEXT OF A DECLINING THREAT

March 8, 1990

Mr. Chairman, I am Dr. Gordon Adams, Director of the Defense Budget Project. The Project is a non-partisan, non-profit research organization in Washington working on defense budget, policy and spending issues. I am grateful for the opportunity to testify this morning on what is perhaps the most critical issue facing the Congress this year: how to deal with the defense budget in the framework of a rapidly declining threat and the requirements of deficit reduction.

Let me begin by stating that we cannot know whether or not a Secretary Gorbachev would have come to power because of internal Soviet political and economic problems alone; but a steadfast alliance commitment to containment seems to have contributed to the failures of Soviet international policy and imposed large domestic costs. As a result of that change, we are now in terra incognita, at the starting point of a reevaluation of U.S. national security policy for which the only recent analog is the late 1940s and the definition of containment policy itself. Although our defense budgets have been cut between FY 1985 and FY 1990 at roughly the same rate as that proposed by the Secretary of Defense for FY 1991-95, this is the first post-Cold War defense budget you have had before you.

Your task is difficult and unenviable: to judge whether this budget fits promising but uncertain international realities and to adjust it, if it does not. At the same time, you face a pressing reality: the need for deficit reduction and persistent demands to meet urgent domestic needs in a time of shrinking federal resources. Dealing with international change requires you to focus on long-term defense budget and force planning requirements. The budget considerations turn you to the short term. Your responsibility is to make these two ends meet, to adjust budgets and force planning to reflect lower resources and reduced threat in a careful and balanced way, while making progress toward deficit reduction.

Secretary Cheney has started you only part of the way down this road in his FY 1991 budget. In my judgement, he deserves praise for recognizing that limited resources and positive international change are irreversibly transforming the playing field for defense budgets and planning. I think he may be the first Secretary of Defense since Melvin Laird to tell the services that they need to begin to face fiscal reality, that their budgets would not grow in the future, thus, shattering the illusion that they could "get well" from the more limited budgets of the present.

What does the Cheney budget do?:

- Strategic modernization is given top priority. MX missile funds increase 65% above FY 1990 funding; advanced cruise missile funds increase 47%; B-2 bomber funds increase 29%; SDI funds increase 22%. In addition, significant funding is requested for the Trident missile and a new Trident submarine.

- Personnel reductions become an important part of budget-cutting, especially for the Army and the Air Force. Army end strength would fall 5.4% between 1989 and 1991; Air Force end strength would fall 7.2%; while Navy reductions would be smaller (1.3%).

- Readiness rates - operating tempos, mission capable rates, training, sailing and flying hours, tank training miles - would remain at the high levels achieved during the 1980s.

- Modernization continues to be top priority. Despite the termination of plans for several hardware programs over the 1990 and 1991 budgets (notably the V-22 Osprey, the F-14D, the F-15E, the AH-64 Apache helicopter, and the M1-A1 tank), the budget request devotes substantial resources to the next generation of defense hardware: the LHX helicopter, ATACMS missile, ADATS air defense system, and Follow-on-to-Lance (FOTL) missile for the Army; the SSN-21 Seawolf submarine, A-12 advanced tactical aircraft, DDG-51 Arleigh Burke class destroyer, Naval Advanced Tactical Fighter (NATF), and the P-7A anti-submarine aircraft for the Navy; and the Advanced Tactical Fighter (ATF), C-17 cargo plane, B-2 bomber, MX rail-garrison system, advanced cruise missile, JSTARS aircraft, and AMRAAM missile for the Air Force. The B-2, C-17, ATF and A-12 programs, alone, will require roughly $250 billion to acquire, under currently available projections.

By setting a lower level of budget authority and spending, the Cheney budget takes a good first step toward fiscal responsibility. However, what looks like a prudent build-down could, instead lead to a imprudent build-up by mid decade. The Cheney budget has two critical problems:

- First, the level of spending continues to be unrealistically high. Overall defense budgets and spending are likely to fall significantly below the Administration's proposal, meaning that even tougher choices need to be made, this time by the Congress.

- Second, it is hard to discern any coherent philosophy or rethinking of national strategy which has guided the priorities and choices made in the budget. As a result, some of the choices appear to make little sense. The commitment made in the budget to the next generation of military hardware -- a new "bow wave" on top of the one just completed -- could, by mid-decade, force us into unbalanced force structure and readiness reductions in order to find the necessary funds.

The dilemma has now been passed to the Congress. The build-down of the 1990s must obviously be done wisely and prudently. We need to plan for a medium-term reduction of forces, scaled to a declining threat, and provide adequate hedges against uncertainty with fewer resources than projected by the Secretary of Defense.

The Realities of International Change

The first ingredient which should drive defense budgets and planning is the change taking place internationally. Has the threat confronting U.S. forces changed dramatically? That threat has been principally from the Soviet Union and the Warsaw Pact. Let me quote Gen. John Vessey, former Chairman of the Joint Chiefs of Staff from testimony he delivered to the Senate Armed Services Committee on February 2, 1990:

> The Warsaw Pact as we knew it, a tightly knit, centrally-directed tool, actually a creation of the Soviet Union, seems to have disappeared before our eyes in recent months and the probability of Warsaw Pact attack on NATO has plummeted.

Soviet forces, especially conventional forces, are also declining. What are the markers of these dramatic changes?:

- Soviet forces are well on the way to the 500,000 person reduction promised in December 1988, with tanks and other offensive forces moving out of Eastern Europe.

- Soviet defense budgets are apparently declining at the rate of roughly 7% per year promised last year by Secretary Gorbachev. Tank production rates have also declined significantly.

- Most important of all, the Warsaw Pact is no longer a militarily meaningful alliance, despite the continued presence of Soviet forces. The Warsaw Pact allies are reducing their armed forces and cutting defense budgets unilaterally, while negotiating the departure of Soviet forces. Soviet forces in East Germany are likely to begin withdrawing as German unification progresses. As a consequence of these actions, even last year's new estimate of warning time -- 33-44 days rather than 10-14 days -- probably underestimates NATO's warning time. The risk of a standing start attack has, military testimony suggests, shrunk to near zero.

- Conventional arms talks are catching up with unilateral force changes, especially the recent agreement that a force ceiling of 195,000 should be set for U.S. and Soviet forces in Central Europe in the first round. Moreover, this Administration is, I think, rightly moving toward taking advantage of the Warsaw Pact cuts and Soviet willingness to negotiate, to move quickly to a second round of conventional reductions in Europe. The Administration has, however, suggested that this ceiling should also be a floor on U.S. troop levels, though subsequent change could allow further reductions.

- There are signs of Soviet desire to conclude START I rapidly and move equally quickly to a second round of strategic arms reductions talks. There is evidence that Soviet strategic weapons production rates are already being slowed to conform to the terms of an emerging START I agreement.

These changes are complex and leave in place considerable Soviet military capabilities. I am persuaded, however, as CIA Director William Webster testified last week, that the Soviet and Warsaw Pact changes are probably irreversible. It is increasingly unimaginable for Soviet policy planners to contemplate a restoration of Soviet military capabilities and deployments without risking internal civil war or direct conflict with their neighbors to the West, regardless of changes in that country's leadership.

These changes do not lead me to conclude that we ought to set sail on a course of unilateral disarmament or to withdraw from involvement in global affairs. We are involved in global affairs whether we like it or not, and we ought to give serious attention to the military dimension of our involvement, post-Cold War. Clearly, part of this process is to ensure that the changes taking place in eastern Europe and the Soviet Union are solidified through international agreements which lead to further reductions, adequate verification and transparency, and the resolution of conflicts in Europe which could stimulate any rethinking.

Given the pace of these changes, it is not surprising that the Administration's defense budget does not present a detailed blueprint for a different military strategy. We are all searching for that strategy; the Administration is not alone.

It is urgent for the Administration to rethink strategy, however, since it is best placed to exercise leadership in this area. One would have hoped last year's strategic review would produce some initial changes in direction; it did not do so. As a result, however, the proposed defense budget would commit us to a series of hardware programs, readiness goals, force structure cuts and base closings which seem to bear little relationship to a new strategy.

It is difficult for the Congress to undertake such a rethinking on its own, but it must move ahead on the budget nonetheless. Thus, your job is to seek the right mix of force changes, readiness and hardware even though the Administration's strategy is unclear. In addition, you must act knowing that the threat is eroding rapidly and that resource limits are even more constrained than those proposed by the Administration.

Guidelines for Budget Choices

I will try to suggest some guidelines for the Congress to consider as it approaches this problem. Let me say first that I recognize the temptation to take the easy road toward meeting an annual deficit reduction target by using gimmicks that transfer outlays from one year to another or target the high-spending accounts, like military personnel, in a desperate search for outlays. I am not happy with outlay planning for national defense, as I am sure many members of this Committee are not. First, outlay projections are always a moving target: in FY 1984, DoD's outlays were $10.1 billion below the projection made in the FY 1984 budget submission; in FY 1986, outlays were $7.5 billion above the projection.

More important, each year the Congress meets the target in this way, it pushes tough choices into the next year, making them even tougher. The temptation is to authorize more hardware programs, such as carriers, with low spendout rates but high budget authority, in order to obtain low outlays while matching the number for budget authority. Continuing this practice will run the Defense Department squarely into a mid-decade budget squeeze.

I do not have a magic wand to wave this problem away. I would propose, instead, that you consider permitting a slightly higher outlay target than you might otherwise wish, while taking a very tough look at budget authority, the resources which will drive outlays in the future. An approach balanced this way might bring budget authority down sharply, limiting future commitments, while permitting a softer landing for outlays.

Although you seek to reach an outlay target, given the constraints of the Gramm-Rudman law, you should think through the longer-term implications of every proposal you consider for meeting that short-term target. Under what guidelines should you operate in striking this balance? Let me suggest a few which I hope will permit you to tie together the need for a longer-term focus with the requirements of short-term deficit reduction:

- Although cuts in military personnel provide short-term outlay savings, think about personnel requirements in terms of the size of the force that might be appropriate by mid-decade and about the rate of change needed to meet that target.

- In the area of military readiness, take into account the major increase in warning time, which could allow the services to reduce operating tempos and training times below currently high levels.

- With respect to modernization of military hardware, consider slowing the arrival of the next "bow wave" by deferring full production of a number of the new systems and cancelling production plans for others.

- With respect to research and development, make sure that an active R&D effort continues as our strongest hedge against uncertainty.

Let me deal with each of these, in turn:

Military Personnel

It is important to have a target level for mid-decade, say roughly 1.5 million active duty people. This would be a 25% reduction over five years, from the current force structure. At that pace, force structure changes are not irreversible, yet they can accommodate Soviet and Warsaw Pact unilateral changes and the progress of CFE talks. With such a target, military personnel funding would decline somewhat more sharply than in Secretary Cheney's budget proposal and end strength would fall an additional 90,000 to 100,000 annually. While this is a large number, it is actually less than half of the average annual attrition and accession rates to the military. This suggests that with proper planning, these cuts could be accommodated without reductions in force (RIFs) or the need to make separation payments to many troops. The relatively gradual rate of decline provide a hedge against international change.

Readiness

Given the rapid decline in the risk of surprise attack and increased warning time, it is time to reevaluate readiness levels. Relatively modest reductions in readiness should be possible, without compromising our ability to respond to events. In response to the argument that any cut in readiness funding automatically leads to lower levels of readiness, let me point out that O&M funding has been sharply cut before: $4.9 billion from the Administration request in 1990; $4.5 billion from the request in FY 1988; $6.2 billion from the request in FY 1987 and $7.5 billion from the FY 1986 request. These reductions were enacted with no noticeable change in operating tempo or training/sailing/flying days. In other words, it is possible to reduce O&M funding without damaging cuts in readiness. Moreover, O&M funding in the President's request actually grows 2% above inflation, once one accounts for funds which would be transferred to other defense budget accounts. Thus, a cut of this magnitude is less dramatic than it seems. Finally, even after a sharp reduction of $6-7 billion, O&M funding would be more than 20% higher, after inflation, than it was in FY 1980, though force structure would actually be smaller.

Modernization

The military forces have just completed a "bow wave" of hardware modernization, begun in the early 1980s. Up to now, military hardware has generally been replaced over a 20 year period. The declining threat suggests that moving more rapidly than normal to the next generation of hardware is unnecessary. Moreover, there is some risk in the high degree of concurrency with which we are testing and producing such programs as the B-2 and C-17. According to DoD projections, 68% of B-2 funding will have been appropriated before we complete the testing program; one would think we had learned that lesson with the B-1B. Equally important, some of the next generation of hardware may be unnecessary, as Richard Perle recently testified; it will certainly be expensive.

We know that procurement budget authority cuts produce minimal outlay savings in the first year. A decision to reduce procurement budget authority, however, would encourage the authorizing and appropriating committees to deal with the coming hardware "bow wave". There are a large number of highly funded hardware programs in that "bow wave" in the FY 1991 budget (see table). I would not propose that all these programs be cancelled, but procurement of some seems unnecessary in the context of the changing threat, e.g., B-2, ATACMS, MX rail garrison, FOTL. Production of others should be deferred, continuing research and development and testing, pending review of the changes in the threat and the requirement for the system, e.g., ATF, ATA. This seems to me a prudent way to hedge against adverse changes while avoiding a commitment to the next "bow wave."

Research and Development

Research and development funding budget authority can be reduced, focusing on relatively few major systems: SDI and B-2, for example. In general, however, a reasonably high level of R&D funding should be maintained as the best hedge against future change and as a way to keep our defense R&D base focusing on the technologies of the future.

I believe these guidelines suggest an approach to the FY 1991 budget which could meet an appropriate outlay target while, at the same time, setting appropriate force and hardware goals for the mid-1990s. Let me also underline that this is clearly not an easy course to follow. Declining defense budgets do require difficult choices and do cause pain. None of these decisions are simple ones; all require careful planning.

For those who are concerned about a sharp reduction in budget authority, let me simply point out that DoD outlays have been higher than budget authority in 14 of the 45 years from 1946 to 1990. In some cases, the gap is higher than the 4% gap separating outlays from BA in the option described by CBO this morning. In 1954 DoD outlays were 17% higher than budget authority; in 1971 they were 4.6% higher.

The important question is, if defense budgets are cut in this way, will necessary future military capabilities be eliminated? We are too often tempted to measure military capability only by what we intend to buy; not by what we have. Let me make some basic points:

> - A defense budget of $281 billion in budget authority as described by CBO this morning is roughly $48 billion higher, in constant dollars, than the peacetime average of defense budgets between 1955 and 1980. Outlays would be roughly $65 billion higher in constant dollars than they were during the "decade of neglect" -- the 1970s. In fact, outlays would remain higher, in constant dollars, than they were in 1982 and 1983, while BA would still be $17 billion above the 1981 level.

- The force structure, under such reductions, would retain a significant number of carrier battle groups, Army divisions, air wings and personnel. The number of Army divisions (active and guard) would be one lower than in 1980 and three higher than in 1975. The Navy would be 50 ships larger than in 1980, including one additional carrier battle group. The Air Force would retain 34 air wings, down from 37 in 1980.

- We would retain a significantly modernized force, thanks to the "bow wave" of the 1980s: new tanks, infantry fighting vehicles (IFVs), ships, missiles and aircraft. In fact, accelerating the coming "bow wave" could cause our forces to have fewer new weapons compared with what could be provided by efficient production rates of the current generation of hardware.

In conclusion, let me emphasize that it is crucial to begin the process of adjusting to change, with careful planning, rather than delay it from year to year until the bottom falls out. Ideally, the process should proceed as a dialogue between both ends of Pennsylvania Avenue, though that may be wishful thinking at this point. If Congress must proceed alone, the course I have proposed seems appropriate.

MAJOR NEW MODERNIZATION PROGRAMS IN THE FY 1991 BUDGET REQUEST
(billions of current dollars)

	Total	Procurement	R&D	Milcon
AMRAAM Missile	1.3	1.3	0.0	0.0
Advanced Tactical Fighter	1.0	0.0	1.0	0.0
B-2 Bomber	5.5	3.8	1.6	0.1
C-17 Airlift Aircraft	2.7	2.1	0.5	0.0
FAADS Missiles	0.5	0.4	0.1	0.0
LHX Helicopter	0.5	0.0	0.5	0.0
MILSTAR Satellite	0.8	0.0	0.8	0.0
MX Missile--Rail-garrison	2.2	1.4	0.5	0.3
MX Missiles	0.6	0.6	0.0	0.0
SSN-21 Submarine	3.7	3.5	0.2	0.0
Strategic Defense Initiative	4.7	0.0	4.7	0.0
Trident Submarine	1.5	1.4	0.0	0.0
Trident II (D-5) Missile	1.7	1.5	0.1	0.1

Source: Defense Budget Project, based on Department of Defense Budget for Fiscal Year 1991: Program Acquisition Cost by Weapon System, and Research Programs (R-1).

Chairman **Sasser**. We will turn now to Dr. Gaffney.

STATEMENT OF FRANK J. GAFFNEY, JR., DIRECTOR, CENTER OF SECURITY POLICY

Mr. **Gaffney**. Mr. Chairman, thank you very much for including me in what may appear to be the skunk at the picnic's role.

I believe that Senator Conrad put his finger right on what I would like to address with you, which is the big picture, the broader set of conditions and circumstances under which your decisions and those of your colleagues are going to have to be made.

I too will summarize very briefly my somewhat longer submitted testimony which I would ask to have included in the record.[1]

Chairman **Sasser**. It will be included in the record as if read.

Mr. **Gaffney**. Thank you.

I must tell you as a former staff member of the Senate Armed Services Committee and an executive branch official that I have an unsettling feeling as I look at the big picture and as I listen to the rhetoric emanating from this body and elsewhere here and abroad, that we are indulging in the binge of counting our chickens before they are hatched. I would even go so far as to suggest that this city in particular is awash with people who have recipes for how the chicken will be cooked and consumed before they are hatched.

And I have tried in my testimony to outline for you a number of things that I think on their face argue that this is a period during which American defense capabilities may be at least as important as they have been in the past, if not more.

And if I may, Mr. Chairman, I have created these rather than quoted them verbatim, but just to give you a flavor of some of the things that I find bolstering of that argument, some national headlines from just the past 2 weeks that I have put in my testimony. For example: "Civil Strife Spreading to Every Soviet Republic," "Military Coup in the Soviet Union Seen as Increasingly Possible," "Libya Initiates Substantial Production of Chemical Weapons," "Soviet Violation of the INF Treaty Discovered," "Soviet Government Refuses to Pay Western Suppliers For Goods and Services," "Iraqis Test an Intercontinental Range Missile," "Soviet Control of Nuclear Weapons in Azerbaijan"—during the recent uprising there—"Questioned," "A Tunnel for North Korean Invasions of South Korea Recently Discovered," "Extremely Advanced Soviet Fighters Going to Cuba," and on and on.

And this is hardly an exhaustive list. But what I hope it suggests to you is notwithstanding the claims, in fact the conventional wisdom—namely, that the cold war is over, whether the cold war is over or not, this is a very dangerous world, indeed. And I personally believe that no small measure of the problem continues to emanate from the Soviet Union.

And on that point, I have outlined for you what I think are a number of the long-standing strategic objectives of the Soviet Union, and in some cases even of the Russian Empire before it, that we ignore at our peril, long-standing objectives that I believe can be seen in light of current events to be moving rather forward in a line or on a course that that long-standing Leninist Soviet policy approach would have them go.

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[1] See p. 335.

And just to give you a flavor of this, it has been long-standing Soviet policy, as you know, Mr. Chairman, for the U.S.S.R. to be the preeminent political and military power in Europe. I think it is fair to say that Soviet influence in Europe, West and East, is as high as it has ever been if not considerably higher.

It has similarly been Soviet policy for decades to fracture hostile alliances, particularly NATO. I think by almost any standard you wish to choose it is closer to accomplishing that today than ever before.

The Soviet Union has sought access to Western financial, economic, and technology resources, in no small measure because of the inherent inefficiency of its own system. It is at the brink of obtaining almost unbridled access to those resources, a point I will come back to in a moment.

It has demonstrated a determination to constrain Western technology as it applies to the military as an important means of affecting the correlation of forces. That is happening, and I believe it will quicken as we see arms control agreements emerge that will have that effect.

It has sought to maintain a buffer state on its borders of at least nonhostile, preferably friendly and allied forces. It will, I think, under all circumstances maintain at least a demilitarized zone on its Western border in its former client states. And in the client states beyond its borders, I think it has clearly undertaken over time to use them to advance its strategic interests.

And with respect, while it has suffered some reverses, I think that a reasonable assessment suggests that, thanks to the enormous amount of money that somehow remains available to support Soviet regimes from Hanoi to Havana, Soviet regimes in those countries or friendly regimes in those countries by and large are still in power today, and I think still engaged in mischief-making.

Now, I hasten to add several caveats. I do not believe that all of the things that I have suggested here are necessarily a result of Soviet initiatives. In fact, some of them have been greatly influenced—like our own domestic budget debate—by events that were clearly not in the Soviet script, nor desired by the Soviets, most obviously, the displacement of the Communist Party as the primary political instrument throughout Eastern Europe and the defection of the Eastern Europeans from communism more broadly.

I think it is also certainly true that the Soviets may not be in a position to exploit at the moment some of these positive developments, as seen from their point of view. It is also true that, as I mentioned in my opening remarks, that there are a number of other countries that are not strictly speaking in the Soviet bloc that are also bad guys, troublesome. And as we see the proliferation of chemical and biological and nuclear weapons technology and ballistic missile technology, that number will only grow.

And there is certainly, as was mentioned I think by Senator Conrad, evidence that there are challenges that we are facing from good guys, so-called good guys, economic challenges not the least.

But my bottom line, Senator, is that I think where we find ourselves, if we have the candor to review with care the world around us, is that unless the Soviet Union is fundamentally and radically transformed in ways that go well beyond even the rather astonishing developments we have seen in recent months, they will remain the primary military threat to the United States, a very formidable military threat to the United States, and one that is far better able to exploit the developments I have mentioned than we will be to respond to that exploitation or to prevent it.

Which leads me to basically three recommendations from a big-picture point of view rather than from the point of view of total obligated authority or outlays.

I think, first of all, it is incumbent upon this government, before it acts upon what can only be described--I think your own remarks suggest this—as a prescription for radical surgery on the U.S. defense budget, that we get a second opinion. And I am speaking here of CIA Director Webster's testimony in the House Armed Services Committee last week.

I personally believe it is profoundly wrong to say, as I believe he has said, that it is simply out of the question that a regime could supplant the present regime in the Soviet Union and do other than continue the relatively benign policies and practices of the present government.

I frankly am at a loss to understand how that could be the considered view of the Agency. But whether it is the considered view or not, it seems to me that this is an opportunity for what was done actually under former CIA Director George Bush namely appointment of a Team B, an outside distinguished, knowledgeable group of experts brought in to second-guess this judgment, to review the assumptions, to review the data, and to second-guess, if necessary, the conclusions.

I suggest the Team B model because you may remember that in the 1970's under George Bush Team B decided that the CIA was actually quite wrong in similarly remarkable, in my view, judgments about Soviet military capabilities. I think we need to be clear and to recognize the dangers that exist.

My second point is I think we need to make the right judgments about our military investments given domestic budget pressures, given the perception, right or wrong, both domestically and internationally, that the world is a less dangerous place.

I have taken the liberty of submitting to you—which I would also ask you to include in the record [1]—a short paper we have just released this morning from the Center for Security Policy that outlines a number of places where we differ with the Bush administration's budget and places where we think the Bush administration's budget is right on—and you may differ with it—and arrives at some recommendations in that respect. The bottom line of this analysis is that, frankly, in this environment the present level requested by the Defense Department is probably about right—at least it should be no lower, possibly higher.

And thirdly, I think, Mr. Chairman, this may fall outside of your venue, but I think is very much consistent with Senator Conrad's view of the need to look at the big picture. I think you could do worse than to focus your energies on steps that are now in the works that will add to the costs of the defense burden rather than reduce them. And I have three in mind.

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[1] See p. 344.

One, we are at the threshold of, as I mentioned a moment ago, permitting the Soviet Union to acquire almost any technology, no matter how militarily relevant, no matter how sophisticated, it wishes through the effective—if not de jure—dismantling of the existing domestic and international mechanisms for controlling technology.

I think that is profoundly troublesome, and I hope that you will focus your energies on it because the costs that will be added to the defense budget are staggering.

I give you just one example. You will recall, of course, the Toshiba episode of several years ago. I think it is conservatively calculated that for an $18 million—that is M as in Mary—million investment in machine tools and software, the Soviet Union was able—again conservatively—to acquire a $10 billion—as in boy—billion benefit in degrading the West's antisubmarine warfare capabilities.

I think we will see that kind of thing played out again and again and again as we sell them additional machine tools and computing equipment and so on—not the sort of thing frankly that will make it easier for the man in the street in the Soviet Union to unburden himself of communism, but precisely the kinds of technologies that will make it possible for the military in the Soviet Union to mount a more formidable threat. The impact of which is the worse because of the impact I think we are likely to see on our own defense R&D programs and the inability to add money back in—like the $10 billion for anti-submarine warfare that we will need to rectify the Toshiba situation.

Secondly, energy. We are at the threshold, I believe, of seeing a substantial encouragement given to American companies and foreign companies to help the Soviet Union exploit its energy resources. We have a paper which we produced last week, Mr. Chairman, which I would also be grateful if you would permit me to put in the record,[1] a short paper, but a very, I think, revealing look at the kind of economic leverage that Soviet energy supplies—particularly to the reforming countries of Eastern Europe and possibly to Western nations as well—can have and can be used with strategically devastating effects.

I think the statement by Gorbachev that Lithuania owes them $30 billion as a price for freedom is just one indication of the Soviet willingness to use this kind of economic leverage on its erstwhile clients and the republics.

Finally, I think this is an area that you have particularly been interested in, Mr. Chairman, at least if I recall your performance on the excellent PBS production, "Follow the Money." We are facilitating the Soviet Union's maintenance of a very much larger military capability and a much more malevolent program around the world, I believe, by supplying the Soviet Union—both the United States and its allies—with untied lending, that is to say, funds that through one means or another, whether it is credits, whether it is outright grants, as Congressman Gephardt—for reasons I cannot fathom either—suggested we make to the Soviet Union or through the sale of bonds which are coming up as a major new source of Soviet hard currency.

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[1] See p. 351.

I think they will give the term "junk bonds" a whole new meaning. But they are nonetheless in the works.

And what we are going to see, Mr. Chairman, I believe is a financial contribution to precisely the worst kind of behavior, the most strategically dangerous kind of Soviet Union of all, as long as we persist in making undisciplined, nontransparent money available to the U.S.S.R.

In conclusion, I would just ask you very seriously to consider the recommendations that we have made about reordering priorities within the existing budget levels so as to maintain the most effective defense capability possible in this changing world, and that you will leave, I hope, to the authorizing committees the responsibility for making those line item allocations.

Thank you, Mr. Chairman.

Chairman SASSER. Thank you, Dr. Gaffney.

[The prepared statement of Dr. Gaffney follows:]

THE
CENTER
FOR
SECURITY
POLICY

Submitted Testimony by Frank J. Gaffney, Jr.
Director of the Center for Security Policy

CAN THE UNITED STATES AFFORD NOT TO BE PROPERLY DEFENDED?

before the U.S. Senate Budget Committee
8 March 1990

On Counting Chickens

As a close observer of the debate over defense spending now consuming this Committee, its House counterpart and countless other organizations and forums in Washington and elsewhere, I have the unsettling sensation that I am witnessing a **binge by people determined to count the proverbial chickens before they are hatched.**

Worse yet, despite the fact that these chickens -- namely, *the widely anticipated dissipation of threats to U.S. security and interests around the world* -- are a long way from being surely and irreversibly secured, many have gone beyond merely *counting* the potential benefits of these developments for the Treasury. Instead, as we have heard from the Congressional Budget Office and other witnesses this morning, the debate is now preoccupied with which of several recipes shall be used to serve up the defense budget, which parts (like the chicken's leg, breast or thigh -- strategic forces, conventional weapons procurements or readiness) can be consumed most quickly.

With all due respect, even a cursory glance at **the past two weeks' headlines makes clear that such precipitous efforts to cash in on the so-called "peace dividend" are entirely premature -- possibly dangerously so.** Consider the following which capture the thrust of recent news reports:

o "Civil Strife Spreading to Every Soviet Republic"

o "Military Coup in Soviet Union Seen as Increasingly Possible"

o "Libya Initiates Substantial Production of Chemical Weapons"

o "Sandinistas Announce They Will Retain Control of Military and Secret Police, 'Govern From Below'"

o "Soviet Violation of the INF Treaty Discovered"

o "Soviet Government Refuses to Pay Western Suppliers for Goods and Services"

- **"German Reunification Alarms Countries Throughout East and West Europe"**
- **"Crisis over U.S. Proposal Could Bring Down Israeli Government"**
- **"Tunnel For North Korean Invasion of South Discovered"**
- **"Extremely Advanced Soviet Fighters Appear in Cuba"**

The list could go on and on. What this sampler is designed to convey is simply that -- for all the talk of the end of the Cold War and the reduction of tensions -- **the world remains a very dangerous place for America and her interests.**

In fact, I believe that this Committee and other participants in the debate over defense spending have *an obligation to look beyond the rhetoric and the assertions of benign intentions by adversaries from Moscow to North Korea* -- and the wishful thinking in the West that they usually produce. *U.S. security policy, and the level of resources allocated to underpin it, must instead be based on reality.*

And the reality is that, while hopeful change is indeed occurring across a broad front, in important ways **such changes are giving rise to an international environment in which American military capabilities may be as important as ever -- if not more important than in the past.**

Substantial Progress Toward Longstanding Soviet Goals

For example, I am deeply concerned about developments which suggest that -- for all of its internal difficulties and economic problems -- **the Soviet Union is closer today to realizing long-term strategic objectives than at any time since World War II.** Were it possible to be a proverbial "fly on the wall" at a Soviet Politburo meeting these days, it is entirely possible that Gorbachev could be heard citing the following checklist of "positive achievements," real progress being made toward classic Leninist objectives, made during this period of supposed Soviet "collapse":

Item: The Soviet Union has long sought to be the preeminent military and political power on Eurasian landmass. The corollary to this goal has, throughout the Post-War period, been the elimination of U.S. forces from -- and otherwise reducing American influence in -- Western Europe.

Today, **Soviet political influence, particularly in Europe, is at an all-time high.** This is partly a function of the widespread perception that Gorbachev is a benign, Western-style democratic reformer and that -- **if the West does not accommodate his demands** -- someone worse will take over or, alternatively, that he might be forced to reverse recent steps toward liberalization, including through the use of Soviet military capabilities. The Soviets have actively encouraged such a perception.

Moreover, the **U.S. military presence in Western Europe** is likely to dwindle dramatically. This will result, if not from negotiated outcomes (i.e., the Conventional Forces in Europe talks), then as a product of the demands of the German Social Democrats (the party likely to form united Germany's first government) to create a disarmed and neutral nation. On the other hand, such an outcome may simply result from the domestic American budget pressures with which this Committee is well acquainted, or some combination of these. At the very least, Germany will shortly be **denuclearized**, greatly increasing the pressure for a nuclear free zone in much of Europe.

Item: The USSR seeks, through whatever means are available, to fracture hostile alliances, especially NATO.

NATO is in fact fractured and paralyzed as never before. The coming talks on German reunification will showcase this reality as the "two-plus-four" nations take up the question of Germany's *association* with NATO (or lack of it). Those allies not included at the table are deeply suspicious of these proceedings.

In all likelihood, despite President Bush's protestations, the matter of stationing allied forces *in the western part of the country* will be up for grabs; at the very least the eastern portion of the country will be neutralized -- a powerful sirens' call to the western half and, possibly to the smaller nations of Western Europe, as well.

Item: Moscow seeks to obtain: virtually unencumbered access to Western economic, financial and technological resources (notably hard currency borrowing on favorable terms; markets for exports -- principally natural resources and energy; penetration of Western securities markets; and militarily relevant technology). **Traditionally, the preferred device for accomplishing this access is through a modus vivendi with Germany (a la the 1922 Rapallo Treaty and the 1939 Nazi-Soviet economic agreement).**

As President Bush and his NATO counterparts have emphasized their commitment to Gorbachev's success, **the prospects for massive Western government-sponsored (or guaranteed) investment, lending, trade, etc. have increased exponentially.** A bilateral trade agreement is in the works, as are Soviet entry into GATT, the World Bank and IMF. The United States is clearing the way for Soviet bond offerings in this country, affording the USSR extraordinary new sources of capital and unprecedented opportunities for strategic penetration of American society.

Similarly, a wholesale decontrol is afoot of militarily relevant Western high technology. Unilateral and multilateral decisions taken in recent weeks threaten to eviscerate the mechanism Western nations have successfully used for several decades to deny the USSR dual-use technology.

Nowhere is this phenomenon more in evidence than with respect to Germany. It is reasonable to speculate whether at the Kohl-Gorbachev meeting last month the price established for the Soviet Union's acquiescence in Germany's reunification was not an agreement by the latter to underwrite the economic recovery of the USSR. In fact, it seems increasingly likely that a reunited Germany may be willing to serve as the capital and technology base for a revitalized Soviet empire.

Item: The Soviet Union strives to maintain favorable "correlations of forces" wherever possible by constraining the ability of U.S. and allied military forces to exploit their technological advantages. A favored technique for accomplishing this is through arms control agreements.

Agreements are imminent on strategic arms, chemical weapons, conventional forces and nuclear testing. **The net effect of these may actually be to worsen the United States' relative military posture.** What is *certain*, however, is that these agreements will impose significant new constraints on the *ultimate determinant of U.S. security* -- qualitative superiority -- *by interfering with, slowing down or precluding technological innovation.* This danger is likely to be heightened by the synergistic effect of defense budget cuts in constraining U.S. military technology developments.

Item: The USSR believes it must maintain a militarily unthreatening buffer zone in littoral states, particularly to its west.

The Soviet Union continues to enjoy considerable influence in the Warsaw Pact states. This is true even in Czechoslovakia, notwithstanding an agreement recently signed by Gorbachev and Vaclav Havel in which the Soviets promise to rupture intelligence ties and remove Soviet forces.

In fact, between active KGB links, the continuing control by communists of key defense, security and intelligence portfolios throughout Eastern Europe **and Moscow's economic leverage over its neighbors**, the USSR is likely to be able to ensure that -- at worst -- it has nothing but demilitarized states on its Western border.

Item: Last, but not least, the Soviet Union strives to exploit overseas client states to promote Soviet strategic interests.

The Soviet Union still provides support -- in some cases in staggering quantities -- **to regimes from Hanoi to Havana**, support that has proven more than sufficient to sustain pro-Moscow regimes. In addition to ensuring that their clients succeed in holding their own in places like Afghanistan, Angola, and Ethiopia, the Soviets may well shortly succeed in greatly expanding their influence in places like South Africa.

Important Caveats

Noting that the USSR may view these as propitious developments is not to suggest that Moscow is in every case responsible for bringing them about. Indeed, much of what is precipitating these developments is a function of perceptions and events arising from **changes clearly not in the "script" Soviet leaders would like to be following.** Non-communists sharing power in much of Eastern Europe; loss of communist parties' primacy; forced evacuation of Soviet occupation forces from Warsaw Pact states; internal chaos within the USSR -- these are surely not *what Gorbachev has in mind.*

Also it is readily acknowledged that, in part as a result of these unscripted developments, *Moscow may not be in much of a position at the moment fully to exploit the opportunities available to it.*

Furthermore, one must also emphasize that a large number of nations and movements, fronts and organizations are acquiring the capability to threaten vital U.S. interests. The proliferation of chemical, biological and nuclear weapons technology and that of the means of delivering such weapons over very long distances with ballistic missiles are of particular concern in this regard.

It would be extreme folly, however, to ignore the fact that -- unless the Soviet Union is radically transformed -- *the USSR will remain the preeminent military threat to the United States. Consequently, we must view with particular concern the likelihood that Moscow will continue to be far more able to exploit progress now being made toward obtaining its long-term goals than the West will be able to prevent the Soviets from doing so*, a reality that will probably prove most detrimental to U.S. and allied security interests.

Designing a U.S. Defense Posture for a Dangerous World -- Recognizing the Dangers

With those caveats noted, in my view, the movement in these various areas of standing strategic interest to the Soviet Union is **a more sure basis for measuring the USSR's true intentions** and **for judging the military capabilities the United States needs to maintain.**

I especially believe that these are a better guide to American security policy than that offered by the Director of Central Intelligence in his appearance last week before the House Armed Services Committee. In particular, I strongly disagree with the "bottom line" of his testimony as characterized by the Washington Post, namely that "it is *highly unlikely* that there *ever* will be a reversal of the *collapsing military threat* from Soviet and Warsaw Pact forces in Europe, *even if* Soviet reformer Mikhail Gorbachev is ousted from power and replaced by a *repressive* hardliner. (Emphasis added.)"

Before President Bush or the Congress act on what can only be described as a prescription for radical surgery on the defense budget, I urge that a second opinion be secured. We at the Center for Security Policy have long believed that in a period of such international turmoil and uncertainty, the United States should have a regularized mechanism for "second-guessing" the official intelligence estimates -- especially those relating to Soviet policy and behavior. I hope the Committee will join us in calling for a "Team B," a group of experts who can be tasked with reviewing the classified and unclassified data, the assumptions and conclusions on which Judge Webster's analysis is based.

Designing a U.S. Defense Posture for a Dangerous World -- Making the Right Investments

We at the Center for Security Policy believe that a realistic appraisal of the potential risks to U.S. national security argues for a level of defense expenditure *at least as high* as that sought by President Bush. That said, we do not agree with every spending decision in the budget he has submitted to you; to help illuminate these differences, we have produced two papers we call "scorecards." **These are designed to illuminate the priority activities and programs which we believe must be pursued** -- virtually irrespective of the ultimate level of funding allocated to the 050 account.

The second of these papers, released this morning, identifies specific areas where we feel changes could -- and, in some cases, must -- be made in the Administration's submitted request. In the latter category, we would put: **the mobile ICBM programs, which (together with Soviet counterpart systems) must be terminated; the V-22 Osprey, which must be produced; and the Brilliant Pebbles-Space-Based Interceptor programs of the Strategic Defense Initiative which must receive additional funds and a deployment commitment.**

The latest scorecard also identifies programs that are likely to be a subject of particular scrutiny by the Congress but *which we believe should be funded at the requested levels.* Among such programs are the B-2 bomber, research and development funding for an anti-satellite system, and the C-17.

While I would be delighted to address any questions you might have about these recommendations, let me outline very simply the key elements of the philosophy that produced them:

- We must preserve a U.S. military posture with the inherent size, flexible and long-range power-projection capabilities, technological sophistication and robustness to constitute reliable deterrents to the range of prospective threats.

- We must avoid reducing unilaterally or otherwise removing from service or from their present deployment locations forces affected by future arms control agreements *until such agreements have been completed and ratified.*

- We must place a priority on the preservation of **national technology and production bases**, irrespective of the size of the proposed reductions in top-line spending. Ironically, the more draconian the U.S. defense cuts, the more important it is that we maintain vigorous research and development programs and avoid critical shortfalls and bottlenecks in defense production capacity that constitute *vital hedges against future security threats.*

Designing a U.S. Defense Posture for a Dangerous World -- Avoiding Cost-Imposing Actions

Finally, I believe it is incumbent on this Committee and others concerned about safeguarding national security at the lowest responsible cost to resist policy initiatives that will add substantially to the defense burden we must bear. Three examples come to mind:

Technology Transfers

Historically, the United States and other leading Western nations have recognized that denying the Soviet Union and its allies access to sophisticated, militarily relevant (i.e., "dual use") technology helps reduce the West's defense costs. Accordingly, a sustained -- and highly successful -- effort has been made since 1949 to control the export of such technology to the Soviet bloc.

In the absence of such controls, or on occasions when they have been disregarded, real and sometimes even staggering additional costs have been imposed on U.S. and allied defense establishments. The best known of such incidents was that involving the sale by Toshiba and Konisberg of advanced machine tools and enabling software to the USSR for the purpose of producing extremely quiet submarine propellers. **For an investment of approximately $18 million, the Soviets obtained what has been conservatively estimated to be a $10 billion degradation in Western anti-submarine warfare capabilities.**

The United States can ill afford such a subsidy to the Soviet military establishment, particularly at a moment when our own investment in the research and development of defense technology is waning and we have little prospect of adding back additional funds to correct deficiencies created in this manner. A potentially decisive shift in the qualitative advantage upon which we have historically relied -- and therefore, in the correlation of forces -- could ensue.

And yet, **the United States is in the process of acquiescing in a wholesale dismantling of the domestic and international mechanisms used to maintain effective controls on technology.** House Majority Leader Richard Gephardt is just the latest in a growing chorus urging extensive technology assistance to the nations of Eastern Europe who have displayed no ability to prevent the transfer of dual use equipment to Moscow and even directly to the USSR, itself.

Energy

A similar move is afoot to assist the Soviet Union in the exploitation of its considerable energy resources. While this initiative has important technology security implications in its own right, it is doubly troublesome for the strategic repercussions that will likely attend increased Soviet energy exports.

Last week, the Center for Security Policy released a major paper that reveals the extent to which **Moscow is already using such exports as an instrument of economic warfare, notably to leverage its erstwhile East European clients and restive Baltic republics into following policies more compatible with Soviet interests.** If anything, this leverage on both Eastern nations and, in all likelihood, Western states, will *increase* should the USSR become an even more important supplier of energy resources. Obviously, such leverage has security implications -- not the least for *the useful role in may play in inducing increasingly "independent" nations of its former empire to play the role of pass-throughs of Western technology and know-how.*

Untied Lending

Another initiative -- also apparently embraced by Rep. Gephardt -- that will greatly add to the costs of Western security involves the practice of providing untied loans to the Soviet Union. Through outright grants, lines of credit and, increasingly, through the sale of bonds in Western securities markets, **Moscow is obtaining hard currency that it can use to finance its military programs, its own and allied espionage efforts and support for the subversive activities of its overseas clients.**

Such practices are the more outrageous to the extent that *Western taxpayers are liable to become, either knowingly or unknowingly, the underwriters of Soviet debt.* While such devices as Exim Bank guarantees and the purchase by organizations like pension funds and life insurance companies of Soviet bonds may conceal this reality, Soviet indebtedness is certain to become an increasing burden to U.S. citizens already saddled with the tax repercussions of the Savings and Loan crisis, the trillion-dollar Third World Debt fiasco and the emerging liabilities associated with failed leveraged buy-outs.

Conclusion

In conclusion, I strongly recommend that this Committee resist the temptation to subordinate the necessary investment in national defense to the all-too seductive -- and prevalent -- belief that U.S. military capability is no longer needed. This is no more true than the assertion that undisciplined, non-transparent economic, financial and technological assistance to the Soviet Union and its allies is as effective a way as defense spending (if not more so) to promote freedom and protect America's national interests.

I urge you to provide a top-line for the 050 account no smaller than that sought by the Bush Administration and that you encourage the authorizing committees to adopt the general approach to the allocation of funds within that account described in the Center's "scorecards."

Senator CONRAD. Mr. Chairman.

Chairman SASSER. Yes.

Senator CONRAD. I have got to leave. I wondered if I would just be able to make a couple of quick observations.

Chairman SASSER. You sure may.

Senator CONRAD. Let me just say that Dr. Gaffney's testimony gives confirmation, I think, to the old saw that when everybody is saying the same thing, nobody is thinking very much. And so I find his testimony valuable in that regard.

Let me just say that the difference I have with him would be on the question of what is the big picture. I think very accurately he has summarized threats that are out there, potential threats at least that are out there and that we all need to be mindful of. And I think you perform a service by outlining those. The headlines that you reflected on certainly highlight that point.

Let me just say, when I talk about big picture I am thinking of other headlines that I have read recently: "Record National Debt," headlines talking about "U.S. Largest Debtor Nation in the World," "Japanese Assets Worldwide Surpass U.S. Assets for First Time," even today's headlines, "Toyota Motor Corporation Has Cash Reserves"—cash reserves—"$20 Billion." That is in today's New York Times. "West Germany's Diemer-Benz and Japan's Mitsubishi Hold Secret Cooperative Talks in Singapore Last Weekend," New York Times of yesterday.

Frankly, when I look at the threats to the United States, I see not only the threats Dr. Gaffney has referred to, and again in a very articulate way has outlined and brought to our attention, but also these other threats, which frankly I see as the most threatening ones on the horizon of our country not having its own economic house in order. And until and unless we summon the political courage and will to address that threat, I am very fearful of the long-term future.

And so when I refer to the big picture, I refer to threats, not only military but economic, that we confront and the need for us collectively to get out of our respective political trenches in order to address those problems.

I thank you, Mr. Chairman, for this time. And I regret that I have to leave.

Mr. GAFFNEY. Mr. Chairman, can I just say one word on that?

Chairman SASSER. If you make it very brief, Dr. Gaffney.

Mr. GAFFNEY. I was under no illusion that you were focusing on a different part of the big picture, Senator. I was just hoping to ensure that as you focused on that part, you were mindful of the other and not going to take steps that would complicate our position in the area that I have addressed.

Chairman SASSER. Mr. Gaffney's request that his two papers produced by the Center for Security Policy be included in the record without objection will be included.

[The papers of Dr. Gaffney follow:]

THE
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No. 90-19
8 March 1990

DEFENSE "SCORECARD" II: AN ASSESSMENT OF THE BUSH BUDGET

Introduction

On 26 January 1990, the eve of the release of the Bush Administration's budget submission to the Congress, the Center for Security Policy produced the first of a series of analyses of American defense priorities and the extent to which various executive and legislative branch actions support -- or undercut -- those priorities.

The present paper represents the second such defense "scorecard." It considers the impact of President Bush's choices in key programmatic areas in FY1991 and over the next five years of declining spending on defense in real terms.

The Administration proposes a sixth consecutive year of reduced U.S. defense investment. The Center believes that, at a time of growing uncertainty about future military threats and security requirements, the United States must be willing to spend at least the amount sought by President Bush, albeit with some modifications to the original budget submission.

Such uncertainty springs from, among other things, the following:

- **The Soviet Union:** There is growing uncertainty about the the prospects of Mikhail Gorbachev and the future course of the Soviet Union. **Perestroika** has failed to halt the decline in the Soviet economy or significantly to reverse the disproportionally large Soviet military investment. Regional separatism and ethnic and labor unrest are likely to increase, with a growing prospect of a more dangerous Soviet leadership.

- **Third Countries:** Potentially hostile nations (notably, Cuba, Syria, Libya, and Iraq) are gaining access to new military capabilities. Such capabilities include ballistic missiles, air defenses and chemical, biological and nuclear technologies.

- **Overseas U.S. Deployments:** The United States is increasingly likely to lose access to vital overseas facilities as existing basing agreements expire or are affected by emerging arms control agreements (in Korea, the Philippines, Greece and Germany, to name a few)

- **Arms Control:** New agreements affecting strategic and conventional forces, chemical weapons, and nuclear testing, could result in changes in the size, composition, disposition and technological sophistication of U.S. forces which could make them *less effective* as deterrents.

- **Defense Industrial Base:** Past and anticipated defense cuts are dampening investment in associated research and development and industrial capacity, seriously compromising the U.S. technology and production base.

The attachment indicates key programs which the Center believes **must be pursued and capabilities that must be retained** virtually irrespective of the level of defense funding ultimately enacted by the Congress.

The Center's working paper on assessing the Bush Administration defense budget is one of a series of occasional contributions by the Center for Security Policy to the debate on foreign policy and defense issues. Such contributions are intended to invigorate and enrich that debate; they do not necessarily reflect the views of all members of the Center's Board of Advisors. For more information about these papers or other work of the Center, please contact the Director, Frank J. Gaffney, Jr.

8 March 1990

THE CENTER FOR SECURITY POLICY
DEFENSE BUDGET "SCORECARD" II: KEY PROGRAMMATIC ISSUES

	ADMINISTRATION (FY 1991)	CENTER VIEWS
Strategic Forces		
MX ICBM	Proposes to make system rail-mobile	**Terminate mobile mode;** maintain current force in Minutemen silos and defend
Midgetman SICBM	Seeks $ 202 m for road-mobile Midgetman	**Terminate mobile basing;** deploy some number in Minuteman silos and defend

N.B. The Center believes that the United States must revisit decision taken last October not to insist upon a complete ban on mobile ICBMs in START due to the utter unverifiability of such systems, contribution Soviet mobiles will make to breakout options and low likelihood of fielding effective U.S. mobiles.

B-2 Bomber	Seeks $3.8 b to buy 5 a/c; $1.57 b in R&D; $100 m in military construction	**Strongly support request;** most cost-effective way to meet future requirement for flexible, dual-capable bomber force
Strategic Defense and Space		
SDI	Seeks $4.7 overall; only $329 m for Brilliant Pebbles, $53 m for Space-based Interceptors	Believe **much accelerated program is possible if** funds are reallocated to BP and SBI

N.B. The Center recommends that world events make the early realization of SDI more imperative than ever before. Accordingly, this program should be restructured with a prompt commitment to realistic testing and early deployment unencumbered by additional arms control constraints.

ASAT	Seeks $207 m for kinetic system	**Strongly support request.**

N.B. The Center believes that the Nation's urgent need to deter Soviet attacks on U.S. satellites and to deny Moscow a sanctuary in space from which to command terrestrial attacks dictates the swiftest possible deployment of an ASAT system. These considerations, coupled with intractable verification problems, also require that the United STates eschew ASAT arms control initiatives.

Intermediate-Range Nuclear

Lance Follow-on	Seeks $112 m in R&D	Recommend **level-of-effort funding be maintained** to preserve option to proceed
F-15E	Cancels program (involves +$303 m in termination costs)	**Preserve line until follow-on** Advanced Tactical Fighter (ATF) is in production.
Sea Lance	Cancels R&D program (-$156 m)	**Maintain at least level-of-effort** funding for Navy's only tactical nuclear weapon development program.

Nuclear Weapons Production & Testing

Nuclear Infrastructure	Modern production capability not assured; R&D cut.	**Return balance between safety & production;** swiftly restore viable production capacity; increase R&D.

N.B. In view of the requirements for maintaining effective nuclear deterrent forces in the foreseeable future, the Center opposes further testing limitations beyond those contained in the TTBT and PNET.

General Purpose & Mobility Forces

Carrier battle groups	Seeks 14 carrier BGs	**Strongly support request,** crucial power projection force
AEGIS cruisers	Seeks $3.7 b for 5 ships	**Stretch out procurement** by funding four, saving $1.3 b.
Fast Sealift Ships	Transfers congressionally mandated funds (-$592 m)	**Deny transfer;** need for such maritime lift will increase greatly as U.S. forces brought home.
V-22 Osprey	Cancels (-$1.4 b)	**Termination decision must be reversed** to permit acquisition of this technology for both military and civilian purposes.
F-14D	Cancels (-$469 m)	**Maintain line** until ATF (or other follow-on) enters production.
ATA	Classified	**Accelerate production decision** so as to minimize gap in Navy attack aircraft acquisition.
ATF	Classified	**Promptly clarify prospects for joint program;** if Navy fighter needs to be met by unique program, get on with it.
C-17	Seeks $1.2 b for 6 a/c	**Support request** as essential for redeploying CONUS-based forces globally.
AH-64 Helicopter	Cancels (-$682 m)	**Maintain line** until LHX or other substitute is in production.
Phoenix Missile	Cancels (-$333 m)	**Maintain line** until alternative is in production.

The Center for Security Policy is a not-for-profit, non-partisan educational corporation established in 1988. It exists to assist those in the executive and legislative branches of the United States government, in the press and among the general public concerned with foreign and defense issues in promptly understanding and addressing strategically significant security developments.

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THE
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1 March 1990
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CENTER REVEALS EMERGING THREAT TO EASTERN EUROPE'S INDEPENDENCE: SOVIET ENERGY LEVERAGE

(Washington, D.C.): The Center for Security Policy today published evidence of the acute vulnerability of Eastern European nations seeking independence from the Soviet Union to Moscow's coercive use of energy leverage.

In a major new paper entitled Energy Leverage: Moscow's Ace in the Hole, the Center reveals that *virtually every one* of the East European states is heavily dependent upon Soviet exports of oil and natural gas. As a result, even as the Kremlin is obliged to remove its occupation forces from some or all of these countries, it may be able to slow the pace and even to alter the direction of democratic and free-market reforms in its erstwhile satellites.

Energy Leverage was adapted from remarks by a member of the Center's Board of Advisor's, Roger W. Robinson, Jr., on 24 February 1990 at the Fuqua School of Business at Duke University and in testimony before the Senate Foreign Relations Committee today. Robinson, a former Senior Director for International Economic Affairs at the National Security Council, observed, "One of the most strategically significant -- yet least understood -- risks to East European economic recovery emanates from the inordinate reliance of these countries on Soviet energy supplies."

The Center believes that, given the strategic importance of the energy sector and the Soviet Union's capacity -- and willingness -- to apply its leverage in this area on the emerging democracies of Eastern Europe, **it is clearly not in the interest of the West or the governments of Eastern Europe to enhance that capability.** Accordingly, it calls on the Bush Administration to demonstrate that it is both prepared to *reduce the present exposure of reforming East European nations to Soviet energy coercion* and to *discourage Western initiatives aimed at assisting the Soviet Union in further exploiting its energy resources*. Specific measures for accomplishing these purposes are identified in Energy Leverage.

Copies of this paper, Robinson's testimony and related materials may be obtained by contacting the Center.

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ENERGY LEVERAGE: MOSCOW'S ACE IN THE HOLE

The Emerging Instrument of Choice for Soviet Coercion

As Soviet troops begin to withdraw from Eastern Europe, their value as instruments of Soviet leverage over the Warsaw Pact nations will begin to decline. The Soviet Union, however, still retains an immense capability to extort cooperation from these countries through another means.

Moscow enjoys enormous control over oil and gas supplies to the region thanks to the virtually complete dependency of the countries of Eastern Europe on Soviet exports of these energy resources. This source of leverage is documented by data compiled by the Center for Security Policy and displayed in the three tables in this analysis.

What is more, the Center has discerned important evidence that the USSR is prepared *to use* this leverage to secure continued cooperation by East European governments with select Soviet objectives. As described below, Moscow has threatened -- and, in some cases, acted -- to restrict the availability of energy supplies to wayward allied regimes. It has also demanded hard currency payments for its energy exports to these countries, a development that has the potential to siphon off a substantial portion of the Western economic assistance now beginning to flow to Eastern Europe.

If the West is serious about assisting the newly emerging democracies of Eastern Europe in their efforts to shed the yoke of Soviet imperialism, it must help mitigate their present exposure to this form of coercive leverage. This will require policy actions designed to reduce significantly East European dependence on Soviet energy supplies and to preclude steps now in the offing that might *further enhance* Soviet energy-related leverage over these countries.

East European Dependence on Soviet Energy Supplies

Today, one of the most strategically significant -- yet least understood -- risks to East European political independence and economic recovery emanates from the inordinate reliance of these countries on Soviet energy supplies. Out of a total regional energy consumption of approximately 9.0 million barrels per day (b/d) oil equivalent, only 6.7 - 6.8 million b/d oil equivalent comes from indigenous sources.

Importantly, the bulk of the latter -- 5.0 million b/d oil equivalent -- is the supplied regional coal production. The remainder is met by hydroelectric, nuclear and modest indigenous oil and gas sources.

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Consequently, oil and gas imports are essential to satisfying roughly *25 percent* of East European energy needs. The Soviet Union is today for all intents and purposes the sole supplier of such imports. Moreover, as is starkly illustrated by **Table I**, these Soviet energy resources constitute essentially all the oil needs of the region (with the exception of Romania). For example, in 1987, Soviet oil deliveries constituted the following estimated percentages of total oil consumption in these countries: Bulgaria - 88%, Czechoslovakia - 99%, East Germany - 123%[1], Hungary - 99%, and Poland 93%.

Overall, Eastern Europe consumes about 1.9 - 2.0 million barrels of oil per day (b/d), produces about 315 thousand b/d and exports roughly 400 thousand b/d. It also imports small amounts of oil from countries other than the Soviet Union. The total daily volume of Soviet oil deliveries to Eastern Europe for 1988 -- the last year for which complete data are available -- was in excess of 1.5 million b/d.

Eastern Europe is even more dependent upon the Soviet Union for imports of natural gas. While several of the USSR's allies in the region are somewhat less reliant on imported gas to meet indigenous needs, as **Table II** indicates, they tend to obtain what gas they get from non-national sources entirely from the Soviet Union.

Does Such Dependency on Soviet Energy Matter?

Unfortunately for the would-be independent democracies of Eastern Europe, their need for Soviet oil and gas puts them at a particular disadvantage. For one thing, with the growing awareness of the devastating impact coal consumption has on the European environment, the countries of Eastern Europe are going to come under growing domestic and international pressure to reduce that consumption. Oil and gas will, consequently, become even more important to the economic viability, not to say growth, of the region.

Moreover, the sizeable investment in fixed infrastructure already in place to support Soviet natural gas imports means that a cut-off from that source and adaptation to other sources would entail considerable dislocation and expense.

It is worth noting in this regard that the Arab oil embargo of 1973-74 only affected approximately five percent of Western oil requirements. And yet, the economic impact of that cut-off was massive and adverse -- even on economies far more robust than any in Eastern Europe today.

The Soviet Energy Situation

Worse yet for the East Europeans, even if the Soviet Union were not disposed to exploit energy leverage for political reasons, Moscow may have no choice but to cut back on its exports of oil and gas to the region.

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[1] The East German statistical dependence on Soviet oil exceeds 100% because East Germany imports more Soviet oil than it consumes and re-exports the surplus.

Signs of serious problems in the Soviet energy sector are increasingly evident.[2] About seventy-four *percent of total Soviet energy production and seventy percent of consumption are based on oil and gas.* (Coal constitutes an additional twenty percent of both production and consumption. Hydroelectric and nuclear electric power provide the remaining six percent of total energy production.)

Soviet oil production has declined from 12.6 million barrels per day at the beginning of 1989 to 12.1 million barrels per day by the end of the year. Causes of the oil production decline include the depletion of existing oil fields, escalating costs, serious environmental problems, and a chaotic administrative situation, (e.g., wholesale dismissals and disciplinary actions along with the merger of the oil and gas ministries last summer).

Production of natural gas has similarly encountered spiraling costs as well as environmental conditions that present huge risks (e.g., pipeline construction over permafrost in the Yamal Peninsula). For its part, the coal industry suffers from chronic and exploitative neglect. This is particularly true of its workforce. Despite promises made by Mr. Gorbachev to Soviet miners last summer, improvements have not been forthcoming. As the winter subsides, many experts expect that the coal miners will again go on strike, in defiance of new and more restrictive legislation enacted following last fall's work stoppages.

Evidence of Soviet Use of Energy for Political Leverage

While Moscow may thus have some legitimate grounds for reducing energy exports to Eastern Europe, there is mounting evidence that it is prepared to make a virtue of necessity by exploiting its leverage for political ends in allied capitals.

The Baltic states have already had a strong signal that increased energy costs would be the price of independence. Soviet spokesman Gennadi Gerasimov said as much when asked on NBC's "Meet the Press" on 31 December 1989, how the Soviet Union could make the Baltics remain part of the Soviet Union. He replied:

> By persuasion and by proving that it's better to stay in the Soviet Union -- the new union, the new federation -- than to go it alone...[The Baltics] cannot really be on their own in economic terms. If you take figures, you can see that these Baltic republics are getting our oil at very cheap prices, which they cannot get from the West, if they go it independently.[3]

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[2] See "USSR Faces Severe Energy Crisis," Soviet/East European Report, Vol. VII, No. 8, 1 December 1989 for a detailed account of Soviet difficulties in the energy sector.

[3] For a more detailed discussion of Soviet energy leverage over the Baltics, see Soviet Economic Leverage: Moscow's Tool for Denying Baltic Independence Without Force, No. 90-3, Center for Security Policy, Washington, D.C., 8 January 1990. See also "Gorbachev's Oil Weapon," Evans and Novak, Washington Post, 17 January 1990.

Other indications of increased Soviet willingness to exploit East European vulnerabilities in the energy sector include:

- Last fall, Moscow signalled to representatives of one of Hungary's opposition party, Democratic Forum, that a steady energy supply from the Soviet Union could be jeopardized if cooperation on other fronts was less than satisfactory. In January, Hungary was forced to buy oil *from Iraq for hard currency* because of reductions in Soviet oil deliveries.

- In January, the Soviet Union showed that it could also use energy resources as a "carrot," by promptly bolstering Romania's energy supplies (390,000 tons of oil for January and 22 million cubic meters of natural gas daily) when Ion Iliescu, an old Gorbachev colleague from university days, emerged as Ceaucescu's successor. Follow-on shipments of aid in unspecified amounts were also promised.

- The Soviet Union has recently told Czechoslovakia that it would only deliver 18 percent of this year's contracted total of crude oil in the first three months of 1990 due to "the political situation in the Soviet Union."[4]

- Production from the Polish refinery in Plock has been reduced by one-third due to interrupted Soviet oil deliveries.

Some of these interruptions are no doubt caused by serious Soviet production and transportation problems, but some were distinctly political. Two recent events further signal likely Soviet intentions concerning future use of the energy "stick":

First, at the recent COMECON meetings, the Soviet Union indicated that if the East European countries intend to break away from COMECON arrangements prematurely and without Soviet concurrence, payments for energy supplies from the Soviet Union would be immediately due in hard currency. This statement had an immediate impact on representatives from Czechoslovakia, Hungary and Poland, producing a dramatic softening of positions about promptly dismantling COMECON and pleas for a "phase in" period for hard currency energy payments to Moscow.

Second, in February, West Germany reportedly agreed to support payment by East Berlin to the Soviet Union in deutsche marks for East Germany's energy imports from the USSR *effective immediately* after monetary union. This means that overnight a major market for Soviet energy exports would be transformed from a barter relationship to one denominated in hard currency.

Implications for U.S. Policy

In the months ahead, pressure will likely intensify to offer large-scale assistance to the Soviet Union to help it overcome its energy production bottlenecks. Soviet authorities have launched an all-out campaign to sign up Western oil companies for joint exploration and production ventures. For example, U.S. firms such as Chevron, Combustion Engineering and Dresser Industries are actively exploring joint venture operations with a view to expanding Soviet energy production capabilities.

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[4] "Reduced Soviet Oil Deliveries to Czechoslovakia," Radio Free Europe/Radio Liberty Daily Report, 16 February 1990.

Given the strategic importance of the energy sector and the Soviet Union's capacity -- and willingness -- to apply leverage in this area on the emerging democracies of Eastern Europe, **it is clearly not in the interest of the West or the governments of Eastern Europe to enhance that capability.**

Instead, immediate attention should be given to developing and implementing the following policy approach:

- On a coordinated, multilateral basis the West should assist Eastern Europe in diversifying its energy supplies. The Soviet shares of total oil and gas consumption respectively should be limited to about 30%, mirroring the intent of the International Energy Agency Agreement of May 1983 pertaining to West European dependency on Soviet gas supplies.

- At the same time, East European governments might approach Arab energy suppliers with the suggestion that, in exchange for receiving below-market prices on oil (and perhaps gas) deliveries for a period of time, the producer-countries can gain important new energy markets. The East European nations could pledge to pay full market prices for such energy supplies as soon as their respective economic revivals permit.

- During the vulnerable period of supply diversification, a hedge against potential energy supply short-falls could be created through the creation of an alliance-wide **Contingency Energy Fund** for the countries of Eastern Europe and the Baltic states. Middle East producers could help lead this important Western assistance effort and absorb some of the costs which may be levied should Soviet supply shortfalls occur for either economic or political reasons.

  In addition, the USSR should be obligated to make purchases from Eastern Europe in hard currency commensurate with its demand for hard currency payment for energy deliveries.

- There should be no waiver of the Stevenson amendment which effectively caps U.S. subsidized credits to the Soviet Union for oil and gas exploration and development.

- Large-scale Western joint ventures in the energy sector should be deferred, at least until East European dependency on the Soviet Union has been successfully reduced.

The Center believes that the strategic, political and economic implications of Soviet energy leverage are of sufficient importance as to warrant a full-scale interagency review by the U.S. government including senior-level discussions with allied nations. At the very least a National Security Council meeting should be convened at the earliest possible time to consider the foregoing recommendations and other policy options.

The address on March 14th by Deputy Secretary of Energy Henson Moore before the American Committee on U.S.-Soviet Relations entitled, "Soviet Energy in the 1990s" offers an excellent opportunity to illuminate for the public the results of such cabinet-level deliberations as well as U.S. objectives for the forging of "risk-sensitive" alliance policies. The Center urges Secretary Moore to demonstrate in his remarks that the Bush Administration is cognizant of the substantial risks for Eastern Europe involved in Moscow's energy leverage and that it will be following a prudent and comprehensive approach toward minimizing the exposure of *both new and older democracies* to Soviet exploitation of this leverage.

The Center's working paper on Soviet energy leverage is one of a series of occasional contributions by the Center for Security Policy to the debate on foreign policy and defense issues. Such contributions are intended to invigorate and enrich that debate; they do not necessarily reflect the views of all members of the Center's Board of Advisors. For more information about these papers or other work of the Center, please contact the Director, Frank J. Gaffney.

Table 1

Eastern Europe Oil Dependence on the Soviet Union
(1987)
(thousand b/d)

	Production	Imports*	Exports	Apparent Consumption**
Bulgaria	6	290 (259)	1	295
Czechoslovakia	3	371 (347)	25	349
East Germany	1	420 (399)	96	325
Hungary	40	201 (178)	62	179
Poland	3	352 (321)	10	345
Romania	215	290 (94)	176	329
Total	268	1,924 (1,598)	370	1,822

*Parenthetical numbers under imports represent oil imports from the Soviet Union.
** Production + Imports - Exports = Apparent Consumption.

	Net Imports As % of Consumption	Soviet Imports	
		% of Gross Imports	% of Consumption
Bulgaria	98%	89%	88%
Czechoslovakia	99%	94%	99%
East Germany	100%	95%	123%
Hungary	78%	88%	99%
Poland	99%	91%	93%
Romania	35%	32%	28%

Source: Center for Security Policy, Washington, D.C., 1 March 1990.

Table 2

East European Gas Dependence on the Soviet Union
(1987)
(Billion cubic meters)

	Production	Imports*	Exports	Apparent Consumption**
Bulgaria	negl	6.0 (6.0)	0	6.0
Czechoslovakia	0.8	12.1 (10.6)	0.6	12.3
East Germany	7.3	7.0 (7.0)	0	14.3
Hungary	7.2	4.8 (4.8)	0	12.0
Poland	5.8	7.5 (7.5)	0	13.3
Romania	32.7	3.2 (3.2)	0	35.9
Total	53.8	40.6 (39.1)	0.6	93.8

*Parenthetical numbers under imports represent gas imports from the Soviet Union.
** Production + Imports - Exports = Apparent Consumption.

	Net Imports As % of Consumption	Soviet Imports	
		% of Gross Imports	% of Consumption
Bulgaria	100%	100%	100%
Czechoslovakia	93%	88%	86%
East Germany	49%	100%	49%
Hungary	40%	100%	40%
Poland	56%	100%	56%
Romania	9%	100%	9%

Source: Center for Security Policy, Washington, D.C., 1 March 1990.

Table 3

Estimated Market Value of Soviet Oil and Gas Supplies to Eastern Europe
($US Billions)

	Oil*	Gas**	Total
Bulgaria	1.6	0.7	2.3
Czechoslovakia	2.1	1.3	3.4
East Germany	2.5	0.9	3.4
Hungary	1.1	0.6	1.7
Poland	2.0	0.9	2.9
Romania	0.5	0.4	0.9
Total Eastern Europe	$ 9.8	$ 4.8	$ 14.6

*Based on 1989 oil export data valued at $17.38 per barrel.
**Based on 1987 gas export data valued at $3.50 per mm BTU.

Source: Center for Security Policy, Washington, D.C., 1 March 1990.

The Center for Security Policy is a not-for-profit, non-partisan educational corporation established in 1988. It exists to assist those in the executive and legislative branches of the United States government, in the press and among the general public concerned with foreign and defense issues in promptly understanding and addressing strategically significant security developments.

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Chairman **Sasser**. Dr. Epstein, you have waited very patiently. And you have appeared before this committee before, and we are eager to hear your comments and testimony this morning. So you may proceed.

STATEMENT OF DR. JOSHUA M. EPSTEIN, SENIOR FELLOW, THE BROOKINGS INSTITUTION

Dr. **Epstein**. Thank you very much. It is an honor to testify before the committee this morning.

Profound changes have occurred in the Soviet Union and Eastern Europe. And these clearly have profound long-term implications for U.S. defense spending, implications to which I would like to return.

I am afraid, however, that the historic transformation underway in Eastern Europe is having a strange and unfortunate effect on the strategic nuclear debate among others. Specifically, Secretary Cheney has been surprisingly successful in silencing criticism of the administration's strategic nuclear program by asserting that, despite the watershed in Europe, Soviet strategic programs have not changed, as if that established the efficiency of the administration's program.

It establishes no such thing. SDI, the B–2, MX, and Midgetman were debatable before the watershed in Eastern Europe, and they are debatable now. I would like to talk briefly about some of these, beginning with SDI.

The original idea of SDI was to replace deterrence with defense, a comprehensive strategic defense of the population from all nuclear threats. This was quickly agreed to be a rather unrealistic goal given outstanding questions of technical feasibility and cost. The program now appears aimed not at the replacement of deterrence, but at its enhancement, through partial defense of military targets.

The problem, of course, is that defenses designed to limit damage if deterrence fails can themselves make deterrence failure more likely. They can, in short, be destabilizing. In a crisis, a Soviet conviction that the United States had the capacity to execute a first strike and then "mop," up or intercept, the retaliation could produce powerful pressures to get in the first blow against U.S. forces or command centers.

It is seldom noted that over 60 percent of Soviet warheads are on ICBM's as against roughly 20 percent of U.S. warheads, and that with 50 MX and 20 Trident submarines armed with D–5 missiles, the United States would acquire a much better first strike capability against Soviet silos than they have ever had against ours.

The logic of the situation is this: Comprehensive defense is not a realistic goal. Partial defenses would at worst prove destabilizing. At best, partial defenses could enhance deterrence.

If in practice, then, the most that can be gained from SDI is an enhancement of deterrence, how much enhancement does deterrence require? Are existing U.S. strategic offensive forces, the ICBM's, submarine-launched ballistic missiles, penetrating bombers and sea- and air-launched cruise missiles, somehow wanting in deterrent power? I doubt it. To see why, let us imagine the worst case.

Suppose the Soviets executed a "perfect" first strike, catching U.S. strategic forces on day-to-day alert, destroying all American ICBM's, 70 percent of U.S. bombers, and more than 50 percent of U.S. submarines. More than 4,100 warheads, capable of destroying a wide range of hard and soft strategic targets in a second strike, would still be deliverable by the United States.

Even assuming literally perfect Soviet air defenses against surviving U.S. bombers and cruise missiles, over 2,600 submarine-launched ballistic missile warheads would be deliverable in a United States second strike, more than enough to decimate hundreds of Soviet conventional and nuclear military targets, while holding in reserve enough destructive power to meet demanding criteria of assured urban/industrial destruction.

Now, in fact, no Midgetman missiles, no Stealth bombers, no Strategic Defense Initiative, no Trident II (D–5) submarine-launched ballistic missiles, none of America's theater nuclear weapons association with NATO, and none of the nuclear weapons of Britain and France are included in this calculation, which Brookings has published. These figures, in short, represent the very widest "window of vulnerability" that the most optimistic Soviet planner could possibly imagine. Perhaps it is understandable that the Soviets have not attempted to jump through.

In fact, prudent Soviet planners could not count on killing all U.S. ICBM's or on catching U.S. submarines and bombers on day-to-day alert. If the United States exploited the warning time that should be available during a war or other crisis, the American bombers and subs could be put on so-called generated alert. In that case, 80 percent of U.S. bombers and SLBM's could be available, more than 9,000 warheads, for a second strike, of which the United States would have high confidence of delivering 6900.

The "window" narrows further when one considers that the United States could technically launch its ICBM's on warning of a Soviet attack, adding roughly 1800 warheads to the retaliatory blow suffered by the U.S.S.R.

All told, leaving launch on warning aside, a conservative Soviet planner today would have to bank on an overall American retaliatory capability of somewhere between 4,100 and 6,900 warheads. It is difficult to fathom how that deterrent should call for enhancement, through partial strategic defenses, through MX missiles, through small ICBM's, or B–2 bombers.

Regarding the B–2 in particular, we now have four ways to penetrate Soviet air space inside the atmosphere. B–52's can penetrate through corridors cut by submarine-launched ballistic missiles. B–1's can penetrate that way or can shoot their way in with a defense suppression missile. Air-launched cruise missiles can penetrate from B–52's or B–1's outside Soviet air space. Sea-launched cruise missiles can penetrate. And in fact, there is a Stealth cruise missile as well, the advanced cruise missile. Do we need another way to do this, at $70 billion?

Let me be perfectly clear. Leave Gorbachev and perestroika aside for the moment. Given the reality of 4,100 to 6,900 deliverable second-strike warheads, would most Americans really rather spend $70 billion on a fifth way to penetrate Soviet air space and further billions on more ballistic missiles, or would they rather see that money spent on education, health, and other domestic and social priorities? I think there is room for doubt.

The same points apply to other areas, notably the Navy. I have argued in detail, and Brookings has published the argument, that even on the now implausible assumption of a unified Warsaw Pact attack on NATO, the maritime strategy and the 15-carrier 600-ship Navy represent a massive diversion of resources from the immediate defense of Europe into offensive surface and subsurface naval actions that are grossly inefficient in accomplishing essential naval tasks, like the defense of sea lanes, and that could prove escalatory on the implausibly generous assumption that they are feasible at all. A 12-carrier fleet was more than sufficient before Gorbachev, and it is more than sufficient now.

Given the existing balance in air-to-air combat, I think it is also inefficient to be fielding successors to the F-15, already way ahead of Soviet fighters.

My first point then——

Chairman SASSER. What did you say about the F-15, Dr. Epstein?

Dr. EPSTEIN. I said it is already way ahead of any Soviet fighters.

My first point, then, is that even if Gorbachev had never come to power, if perestroika, glasnost, and the upheaval in Eastern Europe had never happened, we could achieve substantial savings without reducing security through more efficient force planning alone.

Now, Gorbachev did come to power and he has made a huge difference. The main, but not exclusive, implications are in Europe. I have just completed a book on conventional force reductions that is about to be published by Brookings. With your permission, I would like an excerpt from it to be included in the record.

Chairman SASSER. That will be done. I am just relieved you do not want the whole book in the record, Dr. Epstein.

Dr. EPSTEIN. I have not told you how big the excerpt is yet.

Chairman SASSER. OK.

Dr. EPSTEIN. To summarize the book, even on the now implausible assumption of unified Warsaw Pact aggression, the Soviet unilateral reductions and the prospective CFE agreement would revolutionize the conventional balance to NATO's advantage. The CFE reductions, all of which are analyzed in excrutiating detail in the book, are extremely asymmetrical and eliminate the Warsaw Treaty Organization's numerical preponderance in the Atlantic-to-Urals region, leaving NATO fully adequate to the most demanding scenarios I could reasonably postulate, from surprise attack to fully mobilized attacks.

In the book I recommend further mutual reductions to levels 50 percent below the CFE ceilings in the Atlantic-to-Urals region. For reasons explained in the book, the improvement under such a follow-on agreement would be sufficient to permit the United States to make further unilateral reductions without endangering NATO's security. Total direct savings would be roughly $17 billion per year. If air power were included, the figure would be higher.

Much more dramatic changes are tenable if one abandons the assumption of a unified Warsaw Treaty Organization. Here I think the distinction between intentions and capabilities enters in directly.

It is often asserted that the United States plans forces on the basis of capabilities alone. This is clearly false. The British have the capability to destroy the United States with nuclear weapons. But we, quite rightly, do not plan against this contingency. Similarly, the United States has the capability to invade Canada. But the Canadians would be insane to plan against that eventuality. All militaries plan based on assumptions concerning both intentions and capabilities.

Soviet behavior since December 1988 has shaken basic planning assumptions to the core. If, as a Soviet leader, you intended to invade West Germany, would you unilaterally reduce your front line tank divisions in East Germany? Would you table a CFE proposal sacrificing your numerical preponderance in tanks, artillery, and armored vehicles while calling for token reductions from NATO? Would you dismantle the Berlin Wall and permit the unification of Germany? Would you sit by as communist regimes in the rest of Eastern Europe were ousted, knowing that you were presiding over the de facto dissolution of the Warsaw Treaty Organization?

Whatever their previous intentions may have been, it is difficult for anyone to reconcile recent Soviet behavior with a serious intention to invade Western Europe.

I happen to agree, moreover, with CIA Director Webster that "there is little chance that Soviet hegemony could be restored in Eastern Europe." I also agree that "Soviet military planners could not count on East European military forces in a conflict with NATO." Surely the image of East Germans attacking West Germans under Soviet direction is already implausible. For all intents and purposes, the Warsaw Treaty Organization has dissolved as a unified military threat to the West.

Director Webster states that "withdrawals of Soviet forces from Eastern Europe appear to be on schedule." If, in addition to slashing their forces under CFE and withdrawing residual forces from an independent Eastern Europe, the Soviets were to restructure for defense in depth beginning at the Soviet border, the traditional rationale for a United States military commitment, large-scale military threats to Western Europe, would all but evaporate.

Given that the defense of Western Europe is estimated by the Defense Department itself to account for 60 percent of U.S. spending, the changes underway, if brought to fruition are bound to have profound implications for the Defense budget. An evolution of the sort just outlined could well justify reductions of 50 percent by the year 2000.

It would certainly appear to be in our economic and security interest to foster such a transition. In the near term, significant reductions can be made without detriment to security through more balanced appraisals of military need, greater efficiency in force planning, and vigorous engagement in conventional and strategic arms control.

Thank you.

Chairman SASSER. Thank you, Dr. Epstein.

We are running out of time here. I have got some questions I want to ask. And I would like to propound some of these questions.

If we do not get to them fully for the record perhaps we could get your written responses.

Dr. Adams, in your opening statement, you indicated that we should give some thought to deferring a number of new systems and to cancelling others. Now, historically, I am advised by some experts, that we renew our military platforms about every 20 years. And you made the point that we have just gone through a renewal process. And with these new programs that are following on now we may be in a renewal sequence of a 10-year renewal sequence rather than the previous 20-year renewal sequence.

You also made the point that we ought to be concerned about the bow wave that these new weapons systems would produce—could you wait. The reporter became disconnected there. I think he is reconnected now. You can proceed.

Dr. ADAMS. We have power.

Yes, I think that is a very appropriate question. I had suggested in my testimony the importance of focusing on this bow wave, Senator, in part because of the fiscal implications of proceeding with that bow wave at a time when we know defense budgets are declining——

Chairman SASSER. Pull your mike just a little closer if you would please.

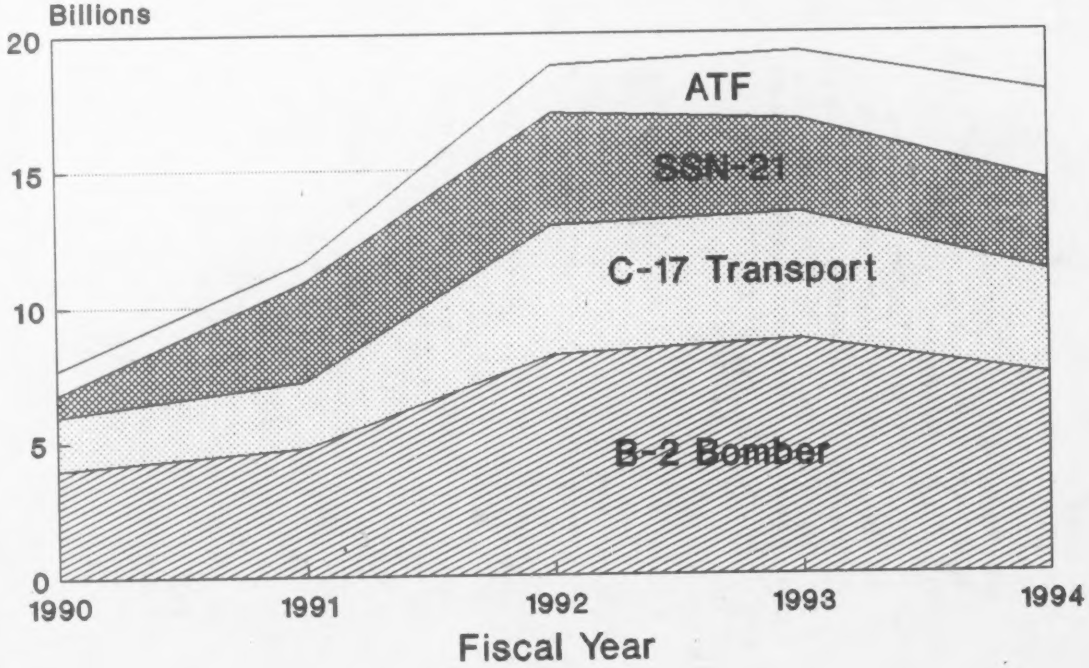
Dr. ADAMS. At a time when defense budgets are declining to set ourselves on a track of $900 billion to $1 trillion worth of hardware acquisition over the next decade is risky fiscally. It may be risky militarily because we may be in the process of acquiring things that we simply will not require given the kinds of restructuring of forces that we may go through.

And it also, I would argue, is even risky in the more narrow sense, that by proceeding, as you have suggested, more rapidly into the next generation of modernization, we are encountering right now a rather high degree of concurrence between the testing of system that about to enter production and the decision to put them into production and proceed. For example, according to DOD projections, as reported by GAO, 68 percent of B-2 funding will have been appropriated before we complete the testing program on that program. And that is not uncharacteristic of a number of the systems that we have.

That having been said, I think there are perhaps a couple of guidelines to suggest directions that we should go in. I very much join Dr. Epstein in his comments about strategic hardware programs, with particular attention, I think, that should be focused on the MX rail garrison program and the B-2 bomber program, which independent of changes in the Soviet Union, it would be unwise to proceed with.

Chairman SASSER. If I could just interrupt, could I get the staff to put up the chart that we have on weapons system bow ways. If you would pull that one out.

1991 Bush Request: Procurement Bow Wave Untouched



And I direct your attention to that, Dr. Adams. See, we have identified a few weapons there, systems, that put out a fairly significant bow wave. One you have mentioned, the B-2——

Dr. ADAMS. Yes.

Chairman SASSER [continuing]. You see how that out-year spending blooms on us, the C-17 transport.

Dr. ADAMS. That is a perfect illustration, yes.

Chairman SASSER. Et cetera, et cetera, the Seawolf submarine, to the Lance tactical fighter.

Dr. ADAMS. And I think the important questions to ask ourselves in each of those areas is, first off, whether we retain a current capability that is adequate the mission we expect it to perform through the decade? And secondly, therefore, whether it is appropriate to either put it on hold or decide not to proceed or to review it? And some of those programs you have up there, as you know, Senator, are under review in the Department of Defense as we speak.

Chairman SASSER. Well, are you in a position to recommend to this committee today programs that you think ought to be cancelled or deferred?

Dr. ADAMS. Yes, I certainly am.

Chairman SASSER. Would you itemize those for us.

Dr. ADAMS. You have at the back of my testimony, Senator, a table which provides you with a list of hardware programs, some of which would be recommendations for deferral, and some of which would be cancellations.

But to hit the highlights here, as far as we are concerned, the MX rail garrison and the B-2 are programs that we should not proceed with into production.

Chairman SASSER. MX rail garrison?

Dr. ADAMS. And the B-2 bomber.

Chairman SASSER. B-2.

Dr. ADAMS. Yes; the ATACMS missile, which is an Army conventionally armed ballistic missile program, the follow-on to the Lance missile are both conventional missile systems that we would recommend not proceeding in production with.

You have up there on your chart the advanced tactical fighter for the Air Force, which is a program we would recommend deferring, not making a decision now to proceed with production, but continue to test the technology, partly on the basis, as Dr. Epstein suggested, that current fighter capabilities are adequate for the missions we are going to ask them to perform.

The SSN-21 is a recommendation in our case for deferral, although ships are a little bit different. You simply say I am not going to go to that production lot, I am going to hold where I am. I believe we have two of those currently in production.

The C-17 transport is a system that I think ought to be deferred and ought to be seriously examined with the prospect of possible cancellation, based in large part on the genesis of the C-17 as a design appropriate to the number of million ton miles we had to move over a certain period of time to the European theater. We then need to raise the question of what is the appropriate alternative airlift responsibility we have mid-decade, whether current capabilities are adequate, and whether we require any additional airlift aircraft.

I would test that technology for the moment. As you know, it is currently in low-level production.

I could go into the others. But those are good illustrations, I think, of the principle.

Chairman SASSER. Yes; well, I think you have hit the points there.

Dr. Epstein, you indicated that your book would detail a 50 percent reduction below CFE targets. What would that take us down to in Europe in troop strength?

Mr. EPSTEIN. I am not sure what it would take us down to in troop strength. The analyses were done in terms of actual weapons, tanks, artillery, armored fighting vehicles, and then converted into combat power scores developed by the Army called armored division equivalents. So I am not sure what the troop implications are specifically.

Chairman SASSER. All right.

Dr. EPSTEIN. Moreover, although troops save money, I do not really think conventional arms control is formulated in its most constructive way in terms of troops. We should probably think in terms of combat units and weaponry. And troop cuts will follow as a matter of course.

Chairman SASSER. Dr. Gaffney, you indicated that you still view this as a very dangerous world, and that perhaps the administration budget, defense budget, was right on target.

Let me ask you this question: I think we would both agree—and I think you stated—that indeed we are in a period of change, that perhaps your apprehension is based on the fact that we cannot predict which direction that change may go. But take it as a given that we are in a time of change. And we may emerge from this time of change either in a more dangerous world or in a safer world. Would we not be better advised to retain our flexibility and to keep the force structure relatively intact, and not commit ourselves to these new, expensive, exotic weapons systems that may or may not be needed in the future?

My point is why not go into somewhat of a holding pattern now on the question of the procurement of new, sophisticated, exotic weaponry and make a determination on down the line as to whether or not that is going to be needed after we see what kind of world we are facing in 1993 or 1994 or 1995? I mean, who could have in their wildest dreams believed the changes that would have occurred over just the past 12 months for example? Why not maintain the flexibility?

Mr. GAFFNEY. Mr. Chairman, I am with you 100 percent up to a point. I think that——

Chairman SASSER. I think the point is you want the force structure and the new weapons.

Mr. GAFFNEY. No, sir. I think that the world in which we live is one in which there is going to be change in the force structure. Whether you do it, whether the armed services committees do it, whether the appropriators do it, whether the CFE negotiators do it, however it occurs, we are going to see changes in—as Josh Epstein has said—what turns out to be the most expensive part of the defense budget, which is the people, with all their benefits and the attendant requirements.

I am of the view that flexibility and preserving capabilities are exactly the right prescription for where we are today. I differ with you, I think, only in the sense that I believe that some of the weapons, not all of them, some of the weapons that we are pursuing now are weapons that represent that inherent flexibility and that are essential under almost any conceivable set of circumstances, whether the Soviet Union ceases to exist, I mean, it simply melts down all of its nuclear weapons—hopefully in an environmentally sound way—but it gets out of the "threat business."

As I have suggested to you, I think there are going to be an awful lot of other people who are going to be in a position to make life difficult for us. Does that mean that you need every single one of the weapons systems that we are currently proceeding with? No; and if you will look at our attachment, I have suggested several, including not only the rail garrison MX, but the Midgetman missile, that I believe for both strategic reasons and arms control reasons ought not to be proceeded with, just as we should not see the Soviets proceed with their mobile systems.

But what I am prepared to argue very forcefully, sir, is that I think you cannot have it both ways, as I think Josh and maybe Gordon are inclined to do. You cannot both say we can forego the ATF, the advanced tactical fighter or comparable aircraft designs now in research and development because we have got more than sufficient capability in our present generation of fighters and go out of the business of being able to replace even the attrition aircraft in the inventory—to say nothing of what you might lose in combat.

Unfortunately, that is what is happening. And it is an area that we have pointed to as one of particular concern, both in this most recent score card, as we call them, and the one that preceded it, which I would ask your permission to also include in the record.

But the picture that I think you need to be thinking about as you worry about maintaining flexibility in an uncertain world—preserving options that you want to preserve—I believe the tech base and the production base of this country are a higher priority frankly than maintaining every man, woman, and others that you might find in the military today. That seems to me to be the kind of prioritizing that we need to be doing.

And I think technology frankly is the thing that has been the backbone of our security posture, certainly since the end of the Second World War. It provides the qualitative edge; it is something to be valued and exploited fully—whether it is in the form of the B-2 or whether it is in the form of the ATACMS, or whether it is in the form of carrier battle groups, long-range power projection forces with maximum flexibility—whichever form that comes in, I think those are areas that you ought to give priority to, not preserving what may well prove to be both an outdated and certainly an unsustainable force structure.

Dr. ADAMS. Mr. Chairman, could I just make one comment on that question?

Chairman SASSER. Absolutely.

Dr. **Adams**. I said to Frank before we came up here to testify that I was startled and somewhat pleased to discover there were some things in his testimony I actually agreed with, one of which is the point that Frank has just made about our problem of eroding our capability to sustain existing capabilities. I suggest in my testimony by proceeding in a kind of a bum's rush way to the next generation, we seem to be sacrificing—and this is the gist of the cuts in the hardware programs in Secretary Cheney's budget—current production capabilities for systems whose price we know and whose performance capability we know.

I think it is a dangerous step that we are taking. It leaves us kind of stranded. In a sense, it is the only chip that the Defense Department can come to us with and say we have got to buy the next generation because we have cancelled our ability to sustain the present generation.

Chairman **Sasser**. Well, look, who are we competing against for these new generation of weapons? Now, Dr. Epstein says that the F-15 fighter is way ahead of anything the Soviets have got. Am I correct in that assessment?

Dr. **Epstein**. That is not me. It is General Charles Gabriel in testimony before the——

Chairman **Sasser**. All right. Now, who else is going to develop state-of-the-art fighters to compete with us?

Mr. **Gaffney**. Could I give you a specific example?

Chairman **Sasser**. Who else is going to develop this state-of-the-art weaponry to compete with us other than the Soviets in numbers that are significant in addition?

Mr. **Gaffney**. May I give you a specific example of what I think illustrates the problem that I am concerned with?

The day before yesterday we suddenly were fixated once again on the Libyan chemical weapons manufacturing plant at Rabta. The Libyans have done us a great favor in helping us to identify that as a chemical weapons production facility, not only by the massiveness of the facility and its being removed from civil populations, but also by surrounding it with high berm walls and state-of-the-art air defenses.

That means that if a decision is made by this country—or some other—that that facility does pose, as I believe it does, a threat to all of us and must be eliminated in a military way rather than through economic sanctions or something else, it will have to go up against some of the best surface-to-air missile systems in the Soviet inventory. It is not air-to-air interceptors that are the problem. It is surface-to-air missiles. Surface-to-air missiles have shown themselves to be capable of knocking down A-6 aircraft, F-111Bs and so on.

It is not enough, in my view, Senator, to assume that we will have in perpetuity, even if we do continue to produce the existing generation of aircraft, the capability to go up against even third world countries in the future.

And think about this if you will: As the Soviets take down military equipment out of the CFE region, it has dawned on a number of people that there is a source of hard currency for a strapped economy that will not quit. The Libyans happen to be in a position to buy a lot of equipment. Others will as well.

The reality that we face, I believe, is our technology is going to remain the cutting edge, the difference between the ability and the inability to protect our security interests throughout the world. And I think that is what we need to be thinking about as we make these choices.

Chairman **Sasser**. Well, I do not mean to be argumentative, Dr. Gaffney, but I do not really find that very persuasive. Because the Libyans have to acquire this technology. In other words, they do not produce it themselves. And if the source, the Soviets, ultimately is cut off, if they lose interest, or if they do not keep pace in developing this sophisticated weaponry.

Mr. **Gaffney**. But, Senator, if I may, the problem is who put the plant in Libya in the first place. It was not the Soviets, it was the Germans.

Chairman **Sasser**. That is correct.

Mr. **Gaffney**. The Germans and the French and the Swedes and others have shown themselves willing to sell advanced military equipment even when the Soviets were not, the Brits, among others.

I mean, the world market for armaments is one you can bet on. There will be people who will be willing to sell very sophisticated EXOCET missiles to the Argentines, and the list goes on and on. And we have to be able to deal with them from whatever source and whatever quarter. I think that is going to require us to draw on technology for the indefinite future.

Dr. **Adams**. Mr. Chairman, I think Dr. Gaffney has certainly amply demonstrated the fact that the world is going to be a complex, potentially unstable in some areas, and difficult place over the next 10 or 20 years. That I certainly think is true.

The question for you, of course, is in part a budgetary one, and in a sense a military one, do we have in place the capability to deal with the range of potential instabilities and difficulties we encounter? And my judgment is that, you know, at $306 billion worth of BA and $303 worth of outlays, is simply more than what is required as we move into that world. And we have to both restructure and look at the different downsizings of our forces.

Where I join him is in saying, yes, we want to be sure that we can test and stay up to date in terms of technology. Where I do not is I do not think we need to put a lot of the new programs into production right now.

Chairman **Sasser**. Did you want to follow up on that, Dr. Epstein?

Dr. **Epstein**. Well, I did. I would just like to ask Frank a yes or no question if you would not mind.

Do you sincerely believe that these state-of-the-art Libyan defenses would have much confidence of intercepting a conventional cruise missile launched from a U.S. submarine in the Mediterranean?

Mr. **Gaffney**. I think they could, yes.

Chairman **Sasser**. Well——

Mr. **Gaffney**. Look, the problem is that this is not a static situation. What you are saying, Senator, or what you need to think about obviously, is not just what happens to the fiscal year 1991 budget. And what I think Gordon is saying is we are OK today. I hope so. If we have prudently invested, we should be.

A number of these systems, including ones that we have mentioned that we should not proceed with or you do not need to proceed with, we are not going to have today even if we decide to bend metal right away.

But what I am urging upon you is that we not allow others to have readier access to our technology which can undermine the technology we do have today—that is absolutely essential, and that is a real problem—and that we do exploit our technology where it makes sense—and I happen to think the B-2 is one of the places where it makes sense—the technology advantage against all comers.

And if we prove to be happier beyond our wildest expectations, that the Soviets really have stopped being a threat to us, it may be that you do not need as many of them as you might otherwise. But it is going to be some years I think under the best of circumstances before that proves out.

Chairman **Sasser**. Well, gentleman, we are running out of time here. I appreciate very much your testimony here this morning.

We may have a couple of questions that I would like to propound in writing to a couple of members of the panel here.

I thank you very much for coming here this morning. Dr. Gaffney said at the outset that some may be counting their chickens before they are hatched. I think some on the panel would say that perhaps there are some Chicken Littles out there. I do not know what the real answer to this whole question is. But you have been very helpful. And I do know that we on this committee have to deal with the reality of trying to find $37 billion worth of savings in this budget for fiscal year 1991. And we have put forward a proposal here that I think is frankly, in view of world circumstances, modest, the $15 billion cut below baseline. And we will just see how that goes.

Gentlemen, thank you very much. This hearing is adjourned.

[Whereupon, at 12:16 p.m., the committee adjourned, subject to the call of the Chair.]

THE DEFENSE MANAGEMENT CHALLENGE:

Recommendations for Managing Defense Resources in the 1990s

by Senator Charles E. Grassley
March 7, 1990

A Response to the Defense Management Report Implementation Activities

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PREFACE

The defense management failures of the 1980s produced marginal capability improvements at great cost. These failures were characterized by a disconnect between plans and execution. Program managers would experience frequent cost, schedule and performance problems at the execution level, but defense planners did not modify their estimates to reflect these real-world results. Moreover, in an attempt to avoid tough program choices, defense planners did not take into account realistic funding levels in a constrained fiscal environment. Stretch-outs ensued, and cost, schedule and performance problems persisted. If allowed to continue, these practices will lead to "expensive weakness" -- a return to the "hollow army" of the 1970s, only at much greater cost.

The defense management paradox of too little money to execute plans and too much money to efficiently manage programs has plagued our attempt to significantly increase military capability in the 1980s. This paradox is characterized by unrealistic planning, inefficient program management, and poor linkage between defense planning, budgeting and program execution. In the 1970s, the paradox led to a "hollow army." In the 1980s, it precluded capability improvements from being commensurate with growth in the defense budget. As defense budgets decline in the 1990s, we must resolve the paradox if we are to avoid a return to a hollow army.

To avoid a decade of expensive weakness, we must reform the process by which objectives are established, plans are made, programs receive resources, and the budget is executed. This requires "linkage" between the various organizational elements under a new defense management structure.

The DEFENSE MANAGEMENT REPORT TO THE PRESIDENT, submitted by Secretary of Defense Cheney in July, 1989, presents a conceptual and organizational approach for reforming defense management processes. It is a good beginning and a necessary first step; however, it is only a partial blueprint for reform. It fails to identify a means to link execution decisions to national security objectives or a method for measuring progress towards achieving the objectives. Ignoring these components of effective management heightens the risk that some needed defense capability may not be funded at the expense of congressional pork-barrelling, since Congress will not have the basis for identifying the implication of its actions on national security. And, of course, this would provide increased momentum along our current course toward expensive weakness.

In my December 13 paper entitled THE DEFENSE MANAGEMENT CHALLENGE: Avoiding a Decade of Expensive Weakness, I outlined additional components that, when added to those in the DMR, would be the basis for bringing modern management techniques to DoD -- a blueprint for effective defense reform. I referred to the need for improvements in each of the "Four Pillars Of Effective Defense Management." They are the key, especially in light of declining resources and changes in the world, to cost-effectively achieve national security objectives by balancing investments across the four capability areas of force structure, modernization, readiness and sustainability.

Since publication of the DMR, DoD presented the DMR implementation actions which were intended as the first step toward implementing the DMR recommendations. These implementation actions fall far short of the reforms envisioned in the DMR. They constitute a timid first step on the path to resolving the defense management paradox. Concentrating on acquisition and logistic organization structure, the actions would result in an estimated $2.3 billion of net savings for fiscal year 1991 by reducing overhead and consolidating some organizational functions; but, they do not change the processes associated with plans, budgets and execution. In other words, staff reductions will not resolve defense planning or cost growth problems, and do not provide the critically needed element of linkage between plans and execution. As a result, continued program execution problems will likely swamp the savings from the implementation initiatives. For example, the entire FY 1991 estimated savings of $2.3 billion will be completely offset by the recently-reported AMRAAM cost overrun.

Further still, the implementation actions have yet to be acculturated within the bureaucracies of the Military Services, such that the actual effect, or success, of DoD's reform efforts is still very much in question. These bureaucracies are responsible for the execution of DoD's management practices. They resist change and fear the uncertainty associated with reform. The Services "game" attempts to implement reforms not seen by themselves as being in their interest. In the past, bureaucracies regarded reform as a passing fancy; once the reform would "blow over," they would return to business as usual. It is therefore a relevant question to consider if the timidity of the implementation actions simply reflects the level of bureaucratic resistence.

This paper provides a blueprint for successful defense management reform to ensure we are getting the biggest bang for our buck in light of declining resources. Section I reviews my December 13 paper; Section II reviews the DMR implementation plans and raises specific concerns about these actions as they would relate to the four pillars of effective defense management; and, Section III provides innovative approaches for achieving the DMR reforms, as well for those pillars of reform not addressed in the DMR. These innovative actions are drawn from reformers within the DoD bureaucracy and would build upon existing efforts to more effectively manage declining defense resources in the 1990s.

Now is the time to improve defense management. Defense budgets in the 1990s will not likely support all the programs, personnel, or bases in current DoD plans. At the same time, there is vast uncertainty with respect to national security needs, since major geo-political events are occurring every day. There are also strategic and conventional arms control opportunities that offer potential windfalls for both national security and the defense budget. This confluence of circumstances will result in critical fiscal and national security consequences. If DoD can follow through on reforms, we can channel the confluence into a true "peace dividend" and away from its current course towards expensive weakness.

I. OVERVIEW OF THE DEFENSE MANAGEMENT CHALLENGE

A. The Defense Management Paradox

Throughout the 1980s, the defense budget grew and was maintained at an unprecedented peacetime level. There were gains in modernization, but at such high costs that fewer quantities than planned could be purchased. In addition, the budget build-up failed to produce significant gains in the three other defense capability areas: force structure, readiness, and sustainability. DoD management practices proved to be much of the problem: DoD management could not translate significantly larger budgets into proportionally larger, more ready, or more sustainable forces.

As we move into the 1990s, the defense budget is declining, the international environment is changing rapidly, and arms control opportunities are promising. Now, as much as ever, there is a need to improve DoD management practices. Available resources must be managed effectively if we are to avoid a return to the "hollow Army" of the 1970s.

In the past, DoD management failures have created a paradox. This paradox is manifest by two conditions: too little money to execute the plans, yet too much money to efficiently manage DoD programs. (1) Spending cutbacks are inevitable, and DOD's management must respond in a manner that optimizes investment in the four capability areas (force structure, modernization, readiness, and sustainability). To make best use of available funds, DoD's management reforms must address both elements of the paradox -- unrealistic planning and inefficient program management.

UNREALISTIC PLANNING

The first element of the paradox, unrealistic Five-Year Defense Plans (FYDPs), derives from poor planning practices. These practices preclude development of an executable FYDP. As a result, Secretary Cheney has made two major revisions to the current FYDP; first deleting $64 billion and then $167 billion of planned programs. This $231 billion-change in the plan equals an overestimate of nearly one complete year's-worth of funding. Most of the cuts were allocated to the investment accounts (RDT & E, procurement), leading to continued program instability and unit cost growth.

The major management problems that have prevented the formulation of achievable FYDPs are: unrealistic estimates used in formulating budgets, lack of linkage between planning and execution, and an inability to make tough program choices. Throughout the past 20 years, various GAO studies have shown that the FYDP has been unachievable because of overly-optimistic cost and funding estimates. Since 1985, the annual defense budget has been stable, yet DoD consistently constructed FYDPs incorporating rapid budget growth. Now, the budget will likely decline. This implies that the need for sweeping program revisions will continue as today's plans become future-year defense budgets.

Making program choices on the order of tens or hundreds of billions of dollars is difficult under any circumstance. But, DoD has been unable to prioritize programs in line with national security objectives and allocate resources to balance expenditures across the four capability areas. So, for example, DoD's $64 billion-FYDP revision included $45 billion in undistributed "negative adjusting entries" representing decisions planned but not yet made. This is also the case for the recent $167 billion-FYDP revision, since much of this cut has not been allocated to specific programs. (2) Secretary Cheney has tried to make some major program revisions. However, Congress has been unwilling to support DoD's attempts to kill major programs, such as the V-22 Osprey, and must share responsibility for this prong of the paradox.

Now, as the bills are coming due for programs begun in the 1980s, there is a need to make major program choices -- choices that capitalize on the changing international environment and make best use of resources available in the 1990s. Instead of funding all current programs at levels too low to efficiently accomplish national security objectives, DoD must set priorities and allocate funds to cost-effectively achieve those objectives. Program cancellations and base closings will likely result, and Congress should subordinate its parochial considerations to such choices in the interest of national security.

INEFFICIENT PROGRAM MANAGEMENT

Weapons program costs continued to grow throughout the 1980s. These costs were paid to satisfy the need to modernize. The cost growth occurred because of poor management practices by both government and industry, government contracting procedures, and Congressional pork-barreling. Some cost growth must be attributed to advanced technology. However, it is clear that net increases in capability were less than cost increases because of battlefield integration problems (e.g., availability of delivery platforms for weapons, command and control interfaces) and quantity reductions resulting from higher than planned costs. Many of the resources that should have been used for increased force structure and readiness, as well as modernization, instead paid for higher unit costs.

Little quantitative data exists on the exact magnitude of cost growth during the 1980s. In the early 1980s, when cost growth and contractor pricing horror stories became public, the Defense Department responded by managing the flow of information rather than managing the problem. In other instances, DoD jockeyed cost growth reporting mechanisms, such as the Selected Acquisition Reports (SARs), to cover up problems. Costs grew in two ways: a given type of system (e.g. tactical fighters) cost much more than previous generations, and program unit costs for current generation systems continued to rise. Congress responded with a number of initiatives; some reduced costs (e.g. the Competition in Contracting Act), others may have increased costs. In summary, the management methods set-up to manage 1970s programs costing "merely" tens to hundreds of millions of dollars were inefficient for the 1980s, when major programs cost tens of billions of dollars.

B. Going Beyond Acquisition Reform

A number of reports have set forth recommended solutions to these problems. They have focused on reforming the acquisition process and the organizational elements related to acquisition. But, the nature of the paradox is such that organizations at all levels of DoD are affected. In order to improve planning and execution of the defense program, DoD management reforms, including acquisition reforms, must be implemented. The issue is not defense acquisition reform; rather, it is defense management reform.

Secretary Cheney has recognized the need for going beyond acquisition reform in his DEFENSE MANAGEMENT REPORT TO THE PRESIDENT (DMR). In this report, he calls for improvements in the defense management framework, Government-Industry relationship, and Congressional activities with respect to defense programs and policies. (3)

In particular, defense management reforms are needed to: establish national security objectives; set priorities for achieving those objectives; and allocate resources in line with realistic plans for achieving those objectives. Defense management reforms must incorporate measures of merit for tracking progress towards achieving national security objectives. The reforms of the Government-Industry relationship and Congressional defense-related activities must be made in line with improvements in the defense management framework, such as removing the disincentives for contractors to reduce costs. Actions of all players -- DoD, the defense industry, and Congress -- should be tied to the efficiency by which national security objectives are achieved.

The key requirement for DoD achieving gains in the four capability areas is the establishment of defense program objectives. The need for such objectives was identified in the DMR which called for DoD components to submit Program Planning Objectives (PPOs) to the Office of the Secretary of Defense (OSD). The PPOs were to be prioritized, and a 20-year "road map" of investment was to be developed for the PPOs. The value of this approach is that it enables top-level objectives to cascade downward to organizational elements responsible for achieving a sub-objective. Likewise, a measure of success can be tied to the overall objective and cascaded downward to track performance and use of resources by responsible organizational components.

The DMR recommendations, aside from the PPOs and 20-year road maps, concentrated mainly on the acquisition system. They emphasized streamlining procurement oversight regulations and organizational elements. But, the reforms did not consider acquisition improvement within the larger context of defense management reform, even though for the first time in nine years procurement was not the largest portion of the defense budget request. In addition, management reforms did not address the relationship between national security objectives and efficient use of resources in the other expenditure categories (Operations and Maintenance, Military Personnel, Military Construction, etc.). In summary, the DMR failed to address management of the majority of defense resources.

C. Four Pillars Of Effective Defense Management

Defense management gains its effectiveness by cost-effectively balancing investments in the four capability areas to achieve national security objectives. It follows that recent defense management problems can be measured by the lack of balanced achievements in the four capability areas. In order to achieve the necessary balance, modern management techniques recognized by top management experts can be categorized into the following four essential pillars for effective defense management:

** Decision-making framework: the manner by which DoD sets objectives and manages to achieve those objectives (e.g., management by objective, management by consensus, management by exception);

** Organizational structure: the organization of DoD elements, including responsibilities and reporting lines;

** Efficient Allocation of Resources: defense budget, personnel, and equipment resources which are used to achieve the objectives;

** Quantitative measures of success: verifiable, quantitative measures for assessing progress towards achieving objectives and reallocating resources in line with cost-effectiveness of investments.

The four management pillars apply to both industry and government, and they are the key components in DoD's Total Quality Management (TQM) initiative for bringing modern management techniques to the Pentagon. The four pillars tell DoD to: set national security objectives; apply a streamlined organizational structure with components that have the responsibility, resources and incentive to achieve those objectives; align resources with objectives; and, track progress towards achieving the objectives and reallocate resources as needed.

D. Cultural Resistance to Reform

DoD is a large bureacracy, with many components that are comfortable and successful in "working the system." These components of the bureacracy resist change and fear the uncertainty associated with management reforms. The Military Services "game" attempts by top management to implement reforms not seen as being in the Services' interests.

The Military Services would like to respond to declining defense budgets as a budget cut to be proportionally shared across programs, and to the changing international environment as justifying new roles and missions. However, as I explained in the DEFENSE MANAGEMENT CHALLENGE: Avoiding a Decade of Expensive Weakness, the magnitude of these required changes is much greater than can be dealt with through merely reducing current forces. (4)

The DoD Planning, Programming, and Budgeting System (PPBS) reflects the myriad interest groups rather than a national strategy. These interest groups have learned how to maneuver within the PPBS in order to obtain resources and perpetuate their interests. As long as the decision-making framework and organizational structure perpetuate the interest groups' benefits through gaming the PPBS, needed reforms will be circumvented. Progress can only be made by aligning organizational incentives with the efficient use of resources towards achieving national security objectives.

Since the publication of the DMR, DoD hasn't been able to implement PPOs or the road maps for achieving those objectives. In addition, DoD has not devoted enough attention to efficiently allocating resources in line with measured progress towards objectives. As a result, there is currently no means for linking resourcing decisions to national security objectives -- leading to the risk of not funding some needed capability, and increasing the likelihood of authorization and appropriation bills based on pork-barrel strategy, since Congress will not have the basis for identifying the implication of its actions on national security objectives.

II. REVIEW OF THE CURRENT DMR IMPLEMENTATION PLANS

A. Overview of the Defense Management Review

In June 1989, Secretary Cheney completed the DEFENSE MANAGEMENT REPORT TO THE PRESIDENT. In the report, he outlined conceptual defense management reforms affecting "business-as-usual" for DoD, Congress, and the defense industry. In highlighting the need for reform, Secretary Cheney noted: "If we are to continue to protect our global interests, meet our responsibilities, and minimize the risks to our security, we must preserve essential military capabilities through ever more skillful use of the resources at our disposal." (5)

Secretary Cheney's report puts forward a defense management decision-making framework, planning and acquisition organizational reforms, enhancements in the government-industry relationship, and recommendations for the way Congress addresses defense programs and policies. The report concentrates on the decision-making framework and organizational structure pillars of effective management. Table II-1 summarizes the DMR implementation activities and identifies which management pillar is affected.

The report recommended a series of analyses and organizational reviews. In line with the report's philosophy of continuous improvements in defense management, DoD has indicated that it will continue to implement the report's recommendations.

TABLE II-1

DMR IMPLEMENTATION ACTIVITIES & DEFENSE MANAGEMENT PILLARS

DMR RECOMMENDATION	DECISIONMAKING FRAMEWORK	ORGANIZATION STRUCTURE	RESOURCE UTILIZATION	QUANTITATIVE MEASUREMENT
PLANNING REFORMS (BIENNIAL BUDGETING, PROGRAM PLANNING OBJECTIVES, 20-YR ROAD MAPS, REALISTIC FUNDING ESTIMATES, P.5)	X	X	X	
REVITALIZED DAB (P.6-7)		X		
BROADER ROLE FOR JOINT REQUIREMENTS OVERSIGHT COUNCIL (JROC, P.7,17)		X		
TRANSFER MAJOR AUTOMATED SYSTEMS ACQUISITION OVERSIGHT TO DAB (P.7)		X		
THREE-TIER ACQUISITION STRUCTURE FOR EACH MILITARY DEPARTMENT (P.8)		X		
ACTIVE INVOLVEMENT OF USDA AND SAE'S IN PROGRAM AND BUDGET CYCLES, RESOURCE DECISIONS AFFECTING PROGRAM BASELINES (P.10)		X		
REMOVE MULTI-YR PROCUREMENT SAVINGS THRESHOLD REQUIREMENT (P.11)	X			
SUSTAINED TENURE FOR SUCCESSFUL PEOS AND PROGRAM MANAGERS (P.11)		X		
REGULATORY REVIEW OF ACQUISITION, PROCUREMENT, LOGISTICS, AND RELATED ACTIVITIES (P.11)	X			
REVIEW OF SINGLE-PURPOSE REQUIREMENTS (P.12)	X			
SELECT NEW DEFENSE ENTERPRISE PROGRAMS (P.12)	X			
DOD-WIDE CIVILIAN ACQUISITION PERSONNEL POLICIES (P.13)	X			
DOD PAYMENT FOR ACQUISITION-RELATED COURSEWORK (P.13)			X	
DOD ACQUISITION WORKFORCE CLASSIFICATION STANDARDS (P.13)	X			
DEDICATED MILITARY ACQUISITION CORPS AND ASSOCIATED TRAINING PROGRAM (P.14)		X	X	
CENTRAL USDA OFFICE FOR ACQUISITION PERSONNEL (P.16)		X		
STREAMLINE ACQUISITION MANAGEMENT, LOGISTICS, DISTRIBUTION, AND RELATED MAINTENANCE FUNCTIONS TO SAVE [illegible] 1991-95 (P.16)		X	X	
CONSOLIDATE CONTRACT ADMINISTRATION INTO NEW AGENCY (P.17)		X		
USDA CONTROL OF CONCEPT DIRECTION STUDY FUNDING (P.18)		X		
USE CONCURRENT ENGINEERING AND OPERATIONAL TESTING FOR MAJOR PROGRAMS (PP. 18-19)	X			
REVISIONS TO DAB MILESTONE REVIEWS (P.19)	X			
USDA IMPROVE SARS, DABS, AND OTHER ACQUISITION INFORMATION SYSTEMS (P.19)				X

TABLE II-1 (Continued)

DMR IMPLEMENTATION ACTIVITIES & DEFENSE MANAGEMENT PILLARS

DMR RECOMMENDATION	DECISIONMAKING FRAMEWORK	ORGANIZATION STRUCTURE	RESOURCE UTILIZATION	QUANTITATIVE MEASUREMENT
COORDINATE TECHNOLOGY BASE PROGRAMS AND ELIMINATE DUPLICATION (ENCOURAGE COMPETITION, PROTOTYPING, COST REDUCTION, P.19)	X			
IMPLEMENT DSB RECOMMENDATIONS ON COMMERCIALLY AVAILABLE PRODUCTS AND COMPETITIVE PRACTICES (P.20)	X			
ESTABLISH DATABASE TO TRACK USE OF COMMERCIALLY AVAILABLE PRODUCTS (P.20)				X
DEVELOP LEGISLATION TO SIMPLIFY CONTRACTING PROCEDURES FOR COMMERCIALLY AVAILABLE PRODUCTS (P.20)	X			
DEVELOP LEGISLATION FOR AWARDING COMPETITIONS TO BEST VALUE (P.20)	X			
DEVELOP DOD-WIDE CONTRACTOR PERFORMANCE REVIEW SYSTEM (P.20)				X
ADMINISTER ETHICS REGULATIONS AND DEVELOP WORKFORCE TRAINING AND GUIDANCE (P.21)		X		
CHARTER A DOD ETHICS COUNCIL (P.22)		X		
ENCOURAGE CONTRACTOR SELF-GOVERNANCE AND DISCLOSURE (PP.22-3)		X		
REMOVE INDUSTRIAL BASE DISINCENTIVES (PP.24-5)	X			
DEVELOP DEFENSE INDUSTRY QUALITY AWARDS PROGRAM (P. 26)	X			
STREAMLINE PROCUREMENT LAWS (P.26)	X			
PREPARE WHITE PAPER ON CONGRESS AND DOD RELATIONSHIP (P.27)		X		

Secretary Cheney's report was valuable not only because it would lead to DoD budget and personnel cuts; rather, it proposed fundamental changes in the way DoD turns its budget into military capability. The key recommendations for improving management of defense resources were: the Program Planning Objectives (PPOs) and associated 20-year road maps; acquisition system improvements; and, limits on micro-management of defense programs, including Congressional micro-management. These initiatives are critical to DoD making the most efficient use of defense resources and being able to provide needed capability in light of reduced budgets.

B. DMR Implementation Activities and the Four Management Pillars

Since publication of the report, six important goals have been used to focus DoD's implementation activities. These goals are:

** Reduce overhead costs without sacrificing military strength;
** Enhance weapon system program performance;
** Reinvigorate the planning and budgeting process;
** Reduce micromanagement;
** Improve observance of ethical standards in government;
** Strengthen the defense industrial base.

In January, DoD presented the DMR implementation actions in line with its six management reform goals. (6) The results of DMR-initiated reviews which were completed by the Fall 1989 timeframe were incorporated into the proposed FY 1991 DoD budget, at an estimated net savings of $2.3 billion. These actions focus on DoD's acquisition and logistic organizational structure, with estimated savings of $39 billion over the period FY 1991-95. For example, a key logistic action reorients incentives for supply system item managers towards cost reduction by transfering funding from the procurement budget to stock funds. This change will make more efficient use of $2.8 billion in FY 1991 programs. In addition, over twenty Process Action Teams have been established to develop implementation plans for the DMR. As a result, DoD has attempted to improve the defense management decision-making framework by streamlining regulations, enhancing the JCS role in resource and acquisition decisions, and redefining roles and responsibilities to streamline acquisition and logistic functions.

As did the recommendations in the Defense Management Report, DMR implementation actions concentrate on the management decision-making framework and organizational pillars of defense management; some initiatives affect the use of resources (inventory control) but none enables measurement of progress towards achieving national security objectives. As a result, there is not a clear linkage between the implementation plans and the FY91 DoD program's balance of investments across the four capability areas.

In order to resolve the current paradox of unrealistic planning and program management inefficiency, attention must be paid to all four defense management pillars. DoD's implementation of the report's recommendations need to be coupled with improvements in the third and fourth pillars of defense management -- resource utilization and quantitative measures of success. The current DMR initiatives reduce overhead and consolidate functions, providing much-needed savings; but, they do not change the processes by which plans are made, programs receive resources, and the plan is executed. Without reforming these processes, it is likely that the "hollow army" of the '70s will again appear.

With respect to the resource utilization pillar, DoD's implementation actions do not address the alignment between national security objectives and available resources. As noted above, DoD has not been able to define PPOs and associated 20-year road maps, per the DMR recommendations. Without such a mechanism for linking resources and strategic objectives, DoD and the Congress cannot effectively integrate budget considerations with the changing international environment. For example, the Defense Planning and Resources Board (DPRB) appears to be evaluating national security implications of changes in Europe. In addition, compared to the last 9 defense budgets, DoD has incorporated the most realistic budget assumptions into the preparation of the FY 1991 budget. However, since the 20-year road map recommendation has not been implemented, there is no traceable mechanism to link the budget estimates with national security objectives and facilitate the redistribution of major blocks of funding even after the DPRB completes its evaluation.

With respect to the fourth management pillar, measuring progress, the relevant implementation actions may include centralizing information management systems and system requirements analyses to refine DoD-wide information needs. It is not clear how the systems will enable tracking of resources against the achievement of national security objectives since management measures of merit are not addressed.

Overall, these initiatives highlight reducing the cost of doing business-as-usual. They are fiscally responsible initiatives that should have been done years ago and Secretary Cheney should be applauded for getting the job done. However, today's real defense management challenge is achieving needed capability with fewer resources. Addressing this challenge goes beyond cutting out fat, which Secretary Cheney has begun to do. Needed reforms must address: establishing measurable national security objectives; more realistic planning; efficiently executing programs; and creating a credible feedback system between execution and planning.

C. Specific Concerns: Implementation of Specific Recommendations

In the DMR, Secretary Cheney recommended actions to improve the defense acquisition system by implementing the Packard Commission recommendations. In addition, he recommended an approach, based on modern management principles, to more effectively align defense resources and national security objectives.

The DMR implementation plans presented to Congress in mid-January provide the pathway to some needed defense management savings. It should be noted that, to Secretary Cheney's credit, there are some additional initiatives not traceable to the report's recommendations. However, the current implementation plans are insufficient for achieving the type of management improvements recommended in the DMR, because the plans do not modify the processes which determine how resources will be allocated against needs.

As valuable and needed as the DMR reforms are, their implemention is being constrained by the bureacracy's cultural resistance to management reform. DoD's progress briefings have noted that the process of improving management will continue, as it should, but for now it will only be partial.

Table II-2 presents a crosswalk, by Military Service, of the report's recommendations and the current implementation actions. This Table provides a look at what actions are underway at the Service-level. The snapshot represented in this Table is telling since the Services are ultimately responsible for implementing the reforms and executing the defense program.

SPECIFIC CONCERNS: DEFENSE MANAGEMENT DECISION-MAKING FRAMEWORK

Secretary Cheney's report prescribes a management decision-making framework aimed at implementing Management By Objective (MBO) for DoD. The key feature is specific planning guidance communicated via the Defense Planning Guidance (DPG) to the Military Services and other DoD elements. The DPG, published in January, was supposed to contain PPOs, as well as 20-year road maps of the investment plans needed to achieve the PPOs. As noted above, these were absent from the document. Last Summer, DoD tried to implement the DMR PPO and 20-year road map recommendations for a limited portion of the defense budget, but, as reported in my December paper, bureaucratic "gaming" staved off even this partial reform effort. (7)

TABLE II-2

DMR IMPLEMENTATION INITIATIVES BY MILITARY SERVICE

DMR RECOMMENDATION	ARMY	NAVY	AIR FORCE
PLANNING REFORMS (BIENNIAL BUDGETING, PROGRAM PLANNING OBJECTIVES, 20-YR ROAD MAPS, REALISTIC FUNDING ESTIMATES, P.5)			
REVITALIZED DAB (P.6-7)	ORIENTS PMS TOWARD RISK MANAGEMENT, MILESTONES CONSOLIDATED TO 4, DAB DECISIONS SIGNED OUT WITHIN 48 HOURS OF MEETING		
BROADER ROLE FOR JOINT REQUIREMENTS OVERSIGHT COUNCIL (JROC, P.7,17)			
TRANSFER MAJOR AUTOMATED SYSTEMS ACQUISITION OVERSIGHT TO DAB (P.7)		CONSOLIDATED UNDER SAE	CONSOLIDATED UNDER AFSARC
THREE-TIER ACQUISITION STRUCTURE FOR EACH MILITARY DEPARTMENT (P.8)	ESTABLISHED, 12 PEOS	ESTABLISHED, NEW SAE, SEVEN PEOS, COVERS 21 OF 81 SYSTEMS	ESTABLISHED, 6 PEOS
ACTIVE INVOLVEMENT OF USDA AND SAE'S IN PROGRAM AND BUDGET CYCLES, RESOURCE DECISIONS AFFECTING PROGRAM BASELINES (P.10)			
REMOVE MULTI-YR PROCUREMENT SAVINGS THRESHOLD REQUIREMENT (P.11)			
SUSTAINED TENURE FOR SUCCESSFUL PEOS AND PROGRAM MANAGERS (P.11)			
REGULATORY REVIEW OF ACQUISITION, PROCUREMENT, LOGISTICS, AND RELATED ACTIVITIES (P.11)	CONDUCTED BY AN OSD LED TASK FORCE, REMOVING OR COMBINING REGULATION		
REVIEW OF SINGLE-PURPOSE REQUIREMENTS (P.12)			
SELECT NEW DEFENSE ENTERPRISE PROGRAMS (P.12)			
DOD-WIDE CIVILIAN ACQUISITION PERSONNEL POLICIES (P.13)	• USING STAFF NOW IN ACQUISITION PROGRAMS • DEVELOPING CIVIL SCHOOLING LEGISLATION • ESTABLISHED ARMY ACQUISITION CORPS	• ESTABLISHED DIRECTOR FOR ACQUISITION WORKFORCE EDUCATION AND TRAINING • ESTABLISHED EDUCATION, TIME OF SERVICE, AND PERFORMANCE REQUIREMENTS	IN PROCESS OF DEVELOPING CAREER PATH
DOD PAYMENT FOR ACQUISITION-RELATED COURSEWORK (P.13)			
DOD ACQUISITION WORKFORCE CLASSIFICATION STANDARDS (P.13)			
DEDICATED MILITARY ACQUISITION CORPS AND ASSOCIATED TRAINING PROGRAM (P.14)			
CENTRAL USDA OFFICE FOR ACQUISITION PERSONNEL (P.14)			
STREAMLINE ACQUISITION MANAGEMENT, LOGISTICS, DISTRIBUTION, AND RELATED MAINTENANCE FUNCTIONS TO SAVE $2B 1991-95 (P.16)	AMC STREAMLINED & STAFFING REDUCED	NAVY SECRETARIAT STREAMLINED, BUYING COMMANDS STREAMLINED & STAFFING REDUCED	AFLC, AFSC STAFFING REDUCED
CONSOLIDATE CONTRACT ADMINISTRATION INTO NEW AGENCY (P.17)	STREAMLINED AT AMMUNITION PLANTS, TRANSFERRED FROM TANK PLANTS AND APROS		STREAMLINING "ACCORDINGLY"
USDA CONTROL OF CONCEPT DIRECTION STUDY FUNDING (P.18)			
USE CONCURRENT ENGINEERING AND OPERATIONAL TESTING FOR MAJOR PROGRAMS (PP. 18-19)			
REVISIONS TO DAB MILESTONE REVIEWS (P.19)			
USDA IMPROVE SARS, DAES, AND OTHER ACQUISITION INFORMATION SYSTEMS (P.19)			

TABLE II-2 (Continued)

DMR IMPLEMENTATION INITIATIVES BY MILITARY SERVICE

DMR RECOMMENDATION	ARMY	NAVY	AIR FORCE
COORDINATE TECHNOLOGY BASE PROGRAMS AND ELIMINATE DUPLICATION (ENCOURAGE COMPETITION, PROTOTYPING, COST REDUCTION, P.19)	ARMY LABS AND ARMY T&E STUDY GROUPS EVALUATING HOW TO INCREASE EFFICIENCY AND QUALITY		
IMPLEMENT DSB RECOMMENDATIONS ON COMMERCIALLY AVAILABLE PRODUCTS AND COMPETITIVE PRACTICES (P.20)			
ESTABLISH DATABASE TO TRACK USE OF COMMERCIALLY AVAILABLE PRODUCTS (P.20)			
DEVELOP LEGISLATION TO SIMPLIFY CONTRACTING PROCEDURES FOR COMMERCIALLY AVAILABLE PRODUCTS (P.20)			
DEVELOP LEGISLATION FOR AWARDING COMPETITIONS TO BEST VALUE (P.20)			
DEVELOP DOD-WIDE CONTRACTOR PERFORMANCE REVIEW SYSTEM (P.20)			
ADMINISTER ETHICS REGULATIONS AND DEVELOP WORKFORCE TRAINING AND GUIDANCE (P.21)			ESTABLISHING PROGRAMS
CHARTER A DOD ETHICS COUNCIL (P.22)			
ENCOURAGE CONTRACTOR SELF-GOVERNANCE AND DISCLOSURE (PP.22-3)			
REMOVE INDUSTRIAL BASE DISINCENTIVES (PP.24-5)			
DEVELOP DEFENSE INDUSTRY QUALITY AWARDS PROGRAM (P. 26)			
STREAMLINE PROCUREMENT LAWS (P.26)			
PREPARE WHITE PAPER ON CONGRESS AND DOD RELATIONSHIP (P.27)			

The PPOs are important for identifying actions to achieve a portion of the National Defense Strategy. The PPOs were to be derived from the national security objectives. The 20-year road maps are important because they would enable specific actions and resource needs to be tied to the fulfillment of the PPOs. Since the DPG was published without PPOs and 20-year road maps, there is no means of prioritizing alternative uses of scarce funding on the basis of long-term national security implications. In this framework, it is impossible to quantify the sensitivity of the current allocation of resources to the uncertain international security environment.

SPECIFIC CONCERNS: ORGANIZATIONAL STRUCTURE

Overcoming the cultural resistance to reform can only be accomplished by creating PEOs responsible for achieving PPOs through program execution. The current SAE-PEO-PM structure, established in the late 1980s, is the first increment of acquisition organizational reform; the DMR implementation actions build on this structure, but should not be interpreted as being sufficient. The implementation actions streamline acquisition oversight and consolidate headquarters activities, rather than link planning and execution roles and responsibilities. As a result, the DMR implementation activities do not affect incentives at the root of the cultural resistance, and, therefore, are not likely to change the decisions that lead to poor performance. It should be noted that the DMR has led to improved JCS involvement in the formulation of resource and system requirements; however, the planning and execution link has not been established.

There are three concerns about the implementation actions relating to the acquisition structure. First, PEOs have incomplete responsibility. The PEOs generally are not responsible for all related "non-major" programs, even though this category constitutes the majority of the acquisition programs. In addition, the Navy PEOs do not control 21 out of 51 major Navy programs. To their credit, the Military Services are giving some responsibility for non-major programs to the PEOs. However, keeping programs outside of the PEOs and three-tier acquisition management structure serves to justify retaining the old acquisition framework and two acquisition structures. Moreover, it prevents program integration decisions on related systems -- decisions that could significantly increase the effectiveness of the acquisition process. It also results in time wasted by the PEOs and acquisition commands fighting over resources "owned" by the old acquisition system.

Having dual acquisition organizations results in ambiguous lines of authority and institutionalized confusion at the working level. Some acquisition command personnel are matrixed into the PEO structure, other personnel are working within the old acquisition structure, and the same personnel may work within the two acquisition structures in a given year. Career employees realize that their advancement will likely be in the old acquisition structure, which is much larger than the PEO organization. Therefore, many streamlining reforms may be paper changes without better results, since it is not clear that the new acquisition system provides sufficient career-related incentives to change from business-as-usual.

Second, the PEOs are not responsible for achieving mission-related program objectives; they have no authority for balancing objectives and resources at either the planning or execution level. The PEOs are supposed to provide "help" to Program Managers (PMs) having cost, schedule, and performance deviations from a baseline. The help consists of oversight and *ad hoc* problem solving ability. This streamlined oversight structure, without the means to focus resources against objectives or a check-and-balance system to ensure early identification of problems, has no inherent ability to more effectively acquire weapons than the current system.

Table II-3 lists the PEOs as they appear in the DMR implementation actions, and identifies whether each covers a mission area (e.g., air defense) or an equipment type (e.g., aircraft). (8) More than two-thirds of the PEOs are focused on equipment types. In this framework, a PEO could only respond to problems in one of his programs by taking resources away from another program. This framework is inherently inefficient because the equipment-oriented PEO lacks visibility of the impact of his actions on cost-effective achievement of mission capabilities; he may address one problem in an inefficient program by taking resources from another program needed for a different mission, thereby generating a second inefficiency.

TABLE II-3
MISSION VS. EQUIPMENT ORIENTATION OF PEOs

PEO By Military Service	Mission Category	Equipment Type
ARMY:		
STRATEGIC INFORMATION SYSTEMS		X
AVIATION		X
ARMAMENTS		X
STRATEGIC DEFENSE	X	
COMMAND & CONTROL SYSTEMS		X
HEAVY FORCE MODERNIZATION		X
COMBAT SUPPORT	X	
AIR DEFENSE	X	
STANDARD ARMY MANAGEMENT INFORMATION SYSTEM		X
FIRE SUPPORT	X	
COMMUNICATIONS	X	
INTELLIGENCE AND ELECTRONIC WARFARE	X	
NAVY:		
SUBMARINE COMBAT SYSTEMS		X
SURFACE SHIP ASW SYSTEMS		X
ASW AIRCRAFT AND OTHER SYSTEMS		X
TAC AIR		X
CRUISE MISSILE AND UAV		X
SPACE COMMUNICATIONS AND SENSORS		X
EXPEDITIONARY FORCE PROGRAMS (MARINE CORPS)		X
AIR FORCE:		
STRATEGIC	X	
INFORMATION SYSTEMS		X
TACTICAL/AIRLIFT		X
SPACE		X
C-3		X
TACTICAL STRIKE	X	

Third, despite management reforms that affect planning, programming, and execution organizations, the DMR implementation actions do not identify who in the management chain is responsible for integrating program execution with the PPBS. Although the current actions save labor costs by reducing the size of DoD organizations, the paradox of unrealistic planning and poor program management can only be resolved by establishing effective organizational roles and appropriately distributing responsibility. While the DMR implementation actions address some planning and execution problems, they fail to provide a key solution: linkage between DoD elements which are responsible for planning and those responsible for execution.

The organizational elements responsible for planning, budgeting and execution are different. OSD and the Military Services will continue to prepare plans containing six years of program forecasts, while the PEOs and PMs will execute the program budgets developed by the Comptroller offices. However, the planners are not responsible for evaluating the executability of past plans and modifying their estimates in accordance with real world results. On the other hand, the PEOs and PMs are responsible for executing the programs' budgets, and may not have insight into the effects of their day-to-day actions on fulfillment of plans. As a result, it is likely that plans will continue to be rarely achieved, and the original program cost-capability-schedule baselines will not be met.

SPECIFIC CONCERNS: RESOURCE UTILIZATION

Although the DMR, in its Planning Process Reforms, laid out a means for relating resources and national security objectives at the top level, DoD has not been able to follow-through on implementing this process. (9) Moreover, a mechanism for cascading the objectives down to program executors does not exist, nor does a means of tying resources and objectives at the PEO level.

Instead, the DMR implementation activities have improved use of resources by reducing staffing levels at a variety of acquisition and logistic organizations. While this may not result in more capability for given defense expenditures, the activities will certainly reduce the number of people associated with a given level of capability. For example, Army Material Command (AMC) and Air Force Systems Command (AFSC) must each be reduced by 4800 staff, which will reduce the staffing costs but not necessarily improve the performance of the Army and Air Force acquisition systems -- unless the cuts can be applied against non-value-added functions. (10)

SPECIFIC CONCERNS: QUANTITATIVE MEASURES OF SUCCESS

In order to track the efficiency of defense investments, DoD needs quantitative measures of success. Even though DoD has recognized vast changes in the threat environment and in the level of available resources for defense, it has been unable to establish management measures that can be used for adjusting plans accordingly. Both the DMR and the implementation activities note the need for continuous improvements. But no measures currently exist for tracking achievement of objectives and program cost, schedule and performance goals.

Within the current DMR implementation activities, DoD has established a group of outside experts to define single DoD business information systems for each major functional area of management. (11) The first step towards defining such systems must be the definition of the elements in DoD decision-making processes. The second step should be to identify the Essential Elements of Information (EEI) needed to support resource allocation decisions for both PPBS and program execution. It is not clear whether new measures are being defined that are traceable to PPOs or to program goals, since DoD has not yet reformed its decision-making processes to incorporate such decision criteria.

III. RECOMMENDED INITIATIVES

There is a wide gap between needed reforms and the success of current DoD efforts. DoD management's ability to optimize capability under declining budgets and a rapidly changing international environment needs more repair than the recommendations outlined in the DMR. In turn, DoD's implementation actions fall short of the reforms envisioned in the DMR. Further still, the implementation actions have yet to be acculturated within the bureaucracy.

The need for continuous improvements in defense management has been embraced by Secretary Cheney, and documented in the DMR and implementation progress reports. In December, I highlighted the need to go beyond the DMR recommendations by reforming all four pillars of effective defense management. The reforms must integrate improvements across these pillars in order to address the defense management paradox.

The current implementation actions do not follow through on the reforms outlined in the DMR. In the current activities, DoD has generated significant savings by stripping away some of the bureaucracy that grew with the budget over the last decade. In other words, staff reductions will not resolve defense planning or cost growth problems that need to be addressed.

In the past, reforms have been viewed by the bureaucracy as mere "passing fancies." Once the spirit of reform has "blown over," the bureaucracy can then return to normal, and go about its business as usual. It is not yet clear that the reform efforts of this Administration will succeed where the Carlucci initiatives, the Weinberger "commandments," Goldwater-Nichols and the Packard Commission recommendations failed the ultimate test -- acculturation within the bureaucracy.

Nonetheless, the current implementation actions are a positive step forward, and the next steps should move DoD closer to implementing the DMR reforms. In support of implementing these reforms, this section outlines recommendations that should be incorporated in DoD's next set of DMR implementation activities.

This section includes innovative approaches for achieving the DMR reforms. The recommendations are drawn from a variety of reports on defense management reform, discussions with individuals actively involved in and affected by defense reforms (including contributors to the Packard Commission and the DMR, as well as DoD employees at various levels of the bureaucracy), and DoD documents (including DMR implementation plans and DoD Total Quality Management briefings). These recommendations would build upon existing efforts; together with the current DMR implementation activities, these recommendations could help DoD implement the necessary reforms across the four components of effective defense management.

A. Resolving the Paradox: Planning Failures

Unrealistic Five-Year Defense Plans result from DoD's business-as-usual planning practices. In the 1960s, the plans were prepared without explicit consideration of the resource needs of the Vietnam conflict. In the 1970s, plans were prepared on the basis of overly-optimistic cost estimates. In the 1980s, the plans were prepared with not only overly-optimistic cost estimates, but also with unrealistically large budget estimates. The result has been DoD's chronic inability to obtain the quantities of items needed to fulfill the plans.

In the past, DoD has chosen to base plans on optimistic assumptions, avoiding the tough choices required in a realistic planning process. Associated with this approach to planning has been DoD's inability to set program planning priorities, to associate realistic estimates of program funding needs with national security objectives, and to allocate realistic forecasts of available funds in line with high priority objectives. But, declining defense budgets demand that decision-makers not escape the need for tough choices. The problem is that DoD decision-makers try to postpone these choices, usually resulting in a growing gap between plans and reality; rather than deleting unaffordable requirements, programs continue to be stretched, or "deferred" in today's vernacular. (12)

Most of the key elements for improving DoD planning were presented in the DMR. (13) The key elements are:

** Biennial defense budget process;

** Secretary's guidance on a limited number of planning issues to be evaluated, and recommendations formulated, during the Spring and Summer prior to the Military Service's Program Objective Memoranda (POM) submission to OSD;

** Secretary's decisions on the planning issues and communication to the Services and defense agencies by August 1 of the year prior to POM submission;

** Defense Planning Guidance (DPG) issued by October 1 of the year prior to POM submission to include the planning issues, the JCS military strategy, a limited set of high-priority Program Planning Objectives (PPOs) that will be mandatory guidance, broad identification of the PPOs' impact on future funding, and a 20-year "Road map" of the modernization needs and investment plans for the PPOs, integrated against realistic estimates of future funding.

In line with these DMR recommendations, DoD has implemented most of the second and third items. And, although Secretary Cheney has produced a DPG, absent are the key initiatives in the third item: the PPOs, fiscal guidance, and the 20-year road maps. (14) In testimony before the Senate Budget Committee February 5, Secretary Cheney agreed on the value of considering 20-year road maps, since most systems remain in the force for at least 20 years, but added that it is difficult to plan in light of the rapidly changing threat environment.

Since the defense budget process does not wait for world events to stabilize, and since today's resource allocation decisions affect the force structure's ability to support U.S. national interests over the next 20 years, the planning reforms described in the DMR are needed now as much as ever. Some follow-through has occurred: Secretary Cheney's current budget request is based on the most realistic estimates of available funding in the past decade. This forecast, 2% real declines in defense budget authority in each of the next five years, has been revised to reflect six years and incorporated in the fiscal guidance DoD distributed in January.

Beyond basing plans on realistic estimates of available funds, DoD must have a mechanism for identifying the PPOs that are major funding drivers early-on in the PPBS process. DoD and the Congress must be able to identify the relationship between resource decisions and military capability, especially when there is a lot of uncertainty in world events or funding levels. Without such a linkage between objectives and resources, it is impossible to build a consensus within Congress to vote resources for military capability needed to protect our interests in an uncertain world.

There has been much discussion about how much the DoD budget should be cut because of current events in Eastern Europe. In order for a "peace dividend" to be quantified, the defense programs associated with planning objectives that are no longer valid must be summed, and the programs associated with planning objectives derived from the current environment must be deducted. But, a Congress left without such PPO and road map data may present the greatest risk, since Congress would likely deduct a peace dividend from the top-line budget number, and, without a link to national security objectives, would allocate the available resources in line with special interests -- leading to a smaller, more pork-filled DoD budget. Likewise, the use of conventional and strategic arms control to achieve a "peace dividend" requires a clear link between relevant PPOs and resource needs.

In order to follow-through on the DMR's planning reforms, DoD should implement a process similar to the Army's Long Range Research, Development, and Acquisition Plan/Mission Army Materiel Plan (LRRDAP/MAMP) process. In the LRRDAP/MAMP process, the Army has constructed a method for identifying what's changed (strategy, threats, etc.), what are the shortfalls, what programs or doctrinal shifts can address the shortfalls, and what resources are needed to resolve shortfalls. The programs are then prioritized within resource constraints. (15)

The LRRDAP/MAMP process divides resources and planning responsibility into mission areas (e.g. air defense), with each mission area team co-managed by a user command representative and a developer command representative, and integrated across mission areas by AMC and the Army's Training and Doctrine Command (TRADOC) staff. Similar processes exist in the Navy and the Air Force, but none is integrated with top-level DoD planning efforts. Rather than OSD setting up a new process, it should build on the LRRDAP/MAMP process. The key aspects of the recommended approach are:

** A national strategy must be formulated in a manner that identifies national security interests and priorities. To accomplish this, DoD should undertake a strategic review encompassing U.S. interests, contingency needs, mission area requirements, the four capability areas, and allied relationships.

** OSD must establish a set of mission areas that will be used by the Military Services and are exclusive of all existing mission areas used in resource allocation.

** Quantifiable PPOs should be established by OSD, and cascaded downward to appropriate quantifiable Mission Area Planning Objectives (MAPOs). This step would link mission area accomplishments to satisfying national security objectives.

** The Military Services should establish mission area teams composed of users, developers and technologists by reorienting existing personnel into the OSD-defined mission areas. Each team will be headed by a mission area manager who will be a life-cycle focused PEO.

** Each mission area team should formulate a mission area master plan that will be a 20-year road map linking investments in the four capability areas and specific programs to achievement of the MAPOs. The master plans should replace the myriad existing Congressionally mandated master plans and modernization plans. (16)

** OSD should provide fiscal guidance to the Military Services. It should integrate Master Plans across Services and misson areas in line with affordability considerations and the PPOs, thereby forming 20-year road maps.

** The PPOs and master plans should be prioritized by the DPRB, forming the basis for decisions on the Six-Year Defense Plan (SYDP), budget, and program execution.

** Planning decisions and progress tracking should be based on quantitative measures that incorporate performance and cost data. The measures must be relevant to the PPOs and mission areas, and they must be auditable to ensure the integrity of the proposed process.

** Congress should authorize two-year defense budgets consistent with a two-year appropriations process. In each second year, Congress should adjust decisions on the two-year program in line with the program execution data.

These recommendations comprise a process for following through on the DMR planning reforms. The key characteristic of the recommended approach is the use of existing mechanisms (e.g. LRRDAP/MAMP, master plans) to tie PPOs to resources. This approach would draw on the existing planning mechanisms to better align resources with greatest payoff, as measured by contribution to national security objectives, thereby implementing a key DMR recommendation.

B. Resolving the Paradox: Inefficient Program Management

As Secretary Cheney implied in his DMR, planning and execution reforms must be coupled. In my December 13 report, I highlighted DoD's program execution problems that result in excessive costs, schedule slippage and system performance degradation. Secretary Cheney inherited these problems; his attempts to reform should continue and Congress should support his efforts.

There are additional efforts that can be undertaken to improve execution of defense programs. These efforts should be incorporated into the continuous improvements DoD promised in its implementation progress report. Combined with current reform activities, the following recommendations will enable DoD to: better quantify the magnitude of cost, schedule and performance problems inherent in the current budget; change the incentives to reward players (government and contractor) for resolving these problems; and, allow the problems to be rapidly addressed in a cost-effective manner.

First, OSD should go beyond the current four-aircraft study to assess the affordability of the 100 largest programs. The assessment should evaluate the realism of cost, schedule and performance estimates by looking at current cost and pricing data, manufacturing facilities, and the degree of concurrency contained in the program's acquisition strategies. The study should employ on-site industrial engineering-based cost analyses, tied to the manufacturing processes to be employed on these programs. The resulting data should flow upwards into the planning process, quantifying the complete extent of resources needed to complete the plan. It should also be given to the Service Acquisition Executives and PEOs so that they have this key information for managing major acquisition programs. The data should also be incorporated into the program baselines by the PEOs. The significance of capturing this data becomes clear when one considers that over the last month, cost, schedule and performance problems have been publicized for AMRAAM, C-17, BSY-2, and FOG-M.

Second, DoD should continue to expand the use of competition and improve the opportunity for the defense industry to compete on the basis of efficiency. This would require a reduction of the significance of labor costs as the key variable in contract bids and a change from the use of cost as the basis for profit calculations. In the current contracting approaches, contractors submit a bid containing data on labor costs by category, other direct charges (e.g. travel, materials), general and administrative (G&A) expenses, overhead, and fee. Since overhead and G&A are negotiated factors based on DCAA audits and are multiplied times the labor and other direct charges, accounting for over 60 percent of costs, a contractor's proposal manager is constrained to competing on the basis of labor hours. Recent programs such as the Army's FOG-M have demonstrated that this leads to contractor "buy-ins" -- a practice widely used in the 1970s -- or to illegal attempts to gain competitive advantages through insider information and payoffs, as demonstrated by the recent "Ill Wind" convictions. Valid recommendations for returning honesty and integrity to the contracting process must go beyond current DMR implementation activities by changing defense industry incentives. There are three specific recommendations for doing this:

** Enable and encourage defense contractors to reduce overhead rates by transferring plant and equipment costs into direct charges through the use of production process-based cost factors. This would enable contractors to compete on the efficiency of their production process, thereby incentivizing investment in modern manufacturing technology, and giving the government program manager additional visibility over bidders' relative capabilities for meeting cost, schedule and performance criteria.

** Base profit or fee on contract productivity, using labor efficiency realization factors, and/or process capability indices (e.g. CpK). This would tie profits to efficiency during contract performance. The contractor's profit or fee would increase with productivity with respect to cost, schedule and system performance.

** Incorporate contractor past performance into the evaluation of contractor performance. This would utilize information on a contractor's record with respect to meeting specifications, waivers, productivity, etc., for competitive

> contracting awards. This would create a disincentive to "buying-in" on competitive procurements and creates an incentive to perform well on existing contracts.

The second recommendation is important because it removes the cost control disincentives associated with profit and fee calculations in current contracting approaches. The recommendation changes the contractor profit focus to a reward structure based on productivity, rather than on a percentage of cost. An example of a mechanism for implementing productivity-based profit was identified by the DoD Inspector General (IG) in March 1989. (17) The IG's approach uses a productivity index, derived from a survey of defense contractors, to generate a profit scale. The contractor's profit for a given contract is related to where that contractor fits on the index and how that position aligns with a profit scale. Alternatively, the recommendation could be implemented by a contractor submitting a labor cost standard within its proposal, and tying the contractor's profit to how close it comes to meeting that standard during the life of the contract. The contractor's profit would then match up to a scale that compares the contractor's cost performance, or realization factor, to the standard. By being more productive, the contractor gets closer to the standard, resulting in a lower cost for the taxpayer and a higher profit for the contractor. The government would still need to validate the contractor's standard, to prevent inflated profits that could be gained from an unrealistically high starting point. A contractor productivity index would be useful in this approach for assessing the realism of the standard. After a realistic standard or profit scale is determined, the profit motive provides a strong incentive for the contractor to tightly manage a contract's cost and schedule. A contractor could receive rapid reward for monthly improvements in productivity if this mechanism were incorporated into monthly progress payment calculations.

These recommendations are not substitutes for important DMR implementation activities that affect DoD's ability to negotiate and manage contracts. The new consolidated Contract Administration Services (CAS) must continue to improve its capabilities, as must the Military Services' acquisition corps, through training.

In addition, modern quantitative measures of merit for tracking contract performance, as recommended by DoD's Total Quality Management (TQM) program, should be implemented and maintained by the CAS. These measures should be tied to top-level functional goals so that contract performance can be traced to mission area performance, vis-a-vis MAPOs, and the resource allocation process can respond to problems or efficiency gains. This approach is well documented in modern corporate management literature. The Computer Integrated Manufacturing-International (CAM-I) approach, developed in the late 1980s, notes the importance of using top-down performance measures to modify behavior of functional managers and attain organizational goals. (18) In the recommended approach, the performance measures are designed such that they reinforce optimal behavior at all levels of the organization.

DoD should continue to pursue and Congress should support programatic actions that will improve the efficiency of procurement programs. There are three initiatives that warrant special mention:

** Multi-year Procurement;
** Economic Order Quantities;
** Suspend Concurrency In Programs Responding to Soviet Threat.

C. Resolving the Paradox: Making Better Use of PEOs To Link Planning and Execution

The entire $2.3 billion-savings for FY 1991 from the DMR implementation activities appear to have been offset by the cost, schedule and performance problems of AMRAAM. (19) To prevent the entire $39 billion in DMR savings from being offset by similiar problems on other programs, DoD must make the new three-tier acquisition structure work. Under current DMR implementation activities, the PEO is responsible for oversight of major program cost, schedule and performance. But one must ask, what process does the PEO have available to correct, or better yet to prevent, problems that arise, such as those on the AMRAAM program. Other than "remedies" that currently exist, such as searching for more money or ad hoc responses, the PEO has no mechanism for doing his job.

In addition, few PEOs are responsible for overseeing programs related to a mission area. This framework inhibits resource trade-offs and support for the most efficient means for achieving mission objectives. For example, the Navy has three Anti-Submarine Warfare (ASW)-related PEOs, plus one ASW-related program (SSN-21) that reports directly to the SAE, plus one major ASW program (SSN-688) which is outside the new three-tier acquisition structure. There is no single person responsible for ensuring that mission area objectives are efficiently achieved through distribution of money to related programs.

The key to implementing the intent of the DMR and the Packard Commission reforms is establishing an incentive structure wherein DoD elements are motivated to generate and achieve affordable mission objectives. Improvements are needed in the present definition of the PEO's role and responsibilities. The PEO organization offers the opportunity for integrating program, planning, budgeting and execution in line with a mission area focus.

In order to make the PEOs more useful, it is necessary to re-orient their role toward a life-cycle, mission area focus. It is recommended that PEOs become mission-area oriented, reporting to both the SAE and the top user command military officer relevant to the given mission area. The PEO should have control over product improvements, research and development, non-major programs, and major programs. He should be directly responsible for cost-effectively allocating resources across existing assets and modernization programs to achieve mission area program objectives. This approach gives the PEO the ability to transfer resources against objectives or problems as needed to support mission area planning objectives. It also gives the PEO responsibility for life-cycle considerations, and focuses those considerations in line with mission area needs.

The management structure of the 1990s should focus on the PEO as the key to efficiently allocating resources and executing programs in order to achieve national security objectives. In this framework, the PEO should be supported by acquisition and logistics specialists, matrixed into the PEO organization from a centralized support activity.

D. Management Measures of Success

Innovative measures of performance must be developed, since DoD cannot use industry performance measures; e.g. return on investment or profit. As a pillar of effective defense management, DoD must be able to compare resource expenditure against contribution to national security objectives on the basis of military worth, and align resources accordingly. Although the parameters may be different from industry, the method by which the measures support planning and resourcing decisions is equally important. As noted in CAM-I: "A key factor in successful implementation of a company's strategic plan is performance measurement, which measures business and plant performance in relation to the goals and objectives developed in the planning process; provides timely information for identifying and eliminating activities that add no value; and, provides timely information on casual factors that may lead to manufacturing improvements." (20)

A DoD performance measurement system that can implement the Defense Planning Guidance must link the cost and value of defense expenditures and must support planning, budgeting and program execution decisions. The principles for such measurement are:

** Consistency with national security objectives: The measures should consider internal and external factors required to achieve objectives, and they should link program actions with the DPG. They must be able to be hierarchically structured such that good performance at the execution level translates into achievement of top-level objectives.

** Adaptability to changing needs: Changing needs and objectives must be prioritized, and measures must be adapted or added. In addition, the measures should enable the prioritization of programs that satisfy conflicting objectives.

** The measures must correlate to significant activities: DoD must allocate resources to activities that contribute toward achievement of objectives. It is necessary to identify which activities are non-value-added, and remove those activities, as DoD has begun to do in the DMR implementation actions. But, DoD still must develop measures of performance for value-added activities.

** Ease of application: The measures should be few in number and quantifiable.

** Top-down Applicability: The measures must be useful in establishing congruence between PPOs, MAPOs, and the program manager objectives since they are the key to cultural changes needed to implement the DMR.

** Cost-effective and timely: The data should be readily available and reported up and down the chain on a timely basis. The minimum Essential Elements of Information (EEI) should be identified and imbedded in a reporting system, with spot audits and use of factual data on cost, schedule and performance in order to ensure credibility.

This approach provides a framework for DoD to implement the fourth pillar of effective defense management. It is also possible to define specific measures that would implement this recommended framework.

At the top-level, it is recommended that DoD develop a cost-benefit measure for key categories of investment (e.g., mission areas, PPOs), in order to evaluate and integrate investment alternatives. This measure should incorporate data on system performance (effectiveness), platform and weapons readiness (availability, inventory), platform and weapons sustainability (survivability, stockpiles), threat charcterisitics (quantity, quality), and life-cycle cost data. The data that goes into this calculation should be tied to the execution of current defense programs by using the best available data, including operational test, field experience, and actual cost data for systems in the inventory, and test and independent cost analyses for systems in development. Such a measure would be useful in comparing existing and proposed systems because it incorporates data available throughout the system life-cycle.

For example, this type of measure has been recently applied for evaluating the investment efficiency of the $12 billion munitions program. In this application, current weapons programs were analyzed on the basis of effectiveness and inventory relative to threat, platform availability for employing the weapons, and program acquisition unit costs.

In an integrated planning, budgeting, and execution system, the data would flow continuously in order to improve the efficiency by which resources are allocated. The recommended measure can be used at various levels of a reformed management framework -- program managers, PEOs, mission areas, and PPOs. It should include cost, schedule, and performance data that would feed into mission area planning objectives and program planning objectives. The measures used in the munitions example would be directly applicable if the planning objectives were tied to specific threat types in specific regions of the world. As new data on program costs or system effectiveness become available (e.g., from an operational test), the impact on investment efficiency for a given system can be updated and resources reallocated as needed to affordably achieve the strategic objective.

Improvements are also needed in DoD's methods for ensuring credibility of such data. Independent agents or DoD components with a vested interest in factual data, such as user commands, should have responsibility for validating data used to support the measures. For example, users should be responsible for testing at point-of-acceptance in order to validate system performance data.

The need for DoD managers, at all levels, to focus on the tie between resources and achievement of objectives is second only to the need for the Secretary to define those objectives. The DoD planners must be concerned with realistic estimates of how resources can be used to achieve national security objectives; this requires measurement of progress against resources. The Military Services, using the PEOs, must efficiently execute the program; this requires measurement of program cost, schedule, and performance. Managing the defense build-down in a manner that avoids a return to the "hollow army" of the 1970s requires linkage between the planners and those responsible for executing the program. Modern management texts note that cost-performance measures, such as those recommended here, are the key to resolving this need.

IV. CONCLUSION

Now is the time to improve defense management. Defense budgets in the 1990s will not likely support all the programs, personnel, or bases in current DoD plans. At the same time, there is tremendous uncertainty with respect to national security needs, since major geo-political events are occurring every day. There are also strategic and conventional arms control opportunities that offer potential windfalls for both national security and the defense budget. This confluence of circumstances will result in critical fiscal and national security consequences. If DoD can follow through on reforms, we can channel the confluence into a true "peace dividend" and away from its current course towards expensive weakness.

The defense management paradox of too little money to execute plans and too much money to efficiently manage programs has plagued our attempt to significantly increase military capability in the 1980s. This paradox is charcertized by unrealistic planning, inefficient program management, and poor linkage between defense planning, budgeting, and program execution. In the 1970s, the paradox led to a "hollow army." In the 1980s, the paradox precluded capability improvements commensurate with growth in the defense budget. As the defense budgets decline in the 1990s, we must resolve the paradox if we are to avoid returning to a hollow army.

Last Summer, Secretary Cheney, in his DEFENSE MANAGEMENT REPORT TO THE PRESIDENT, highlighted the need to go beyond the calls for acquisition reform — the issue is DoD management reform. In December, I issued a report which praised his efforts and stated the need to go beyond his recommendations by addressing all four pillars of effective defense managment: decision-making framework; organizational structure; efficient allocation of resources; and quantitative measures of success. Over the past two months, DoD has presented DMR implementation actions. Some of these actions are insufficient to achieve the intent of the DMR, while other initiatives go beyond specific DMR recommendations.

The DoD defense management reform activities are valuable and should be supported by Congress. In addition, it is well recognized that reform must be an iterative process with continuous process improvements. However, bureaucratic resistance to reforms has limited Secretary Cheney's ability to implement recommendations. I have found that, as a result, there are discrepancies between current actions and each pillar of effective defense management.

In this paper, I have outlined those discrepancies and, in the spirit of constructive critique, presented recommendations to resolve the defense management paradox. These recommendations have drawn on valuable insights and initiatives emerging from within the bureacracy, from those steeped in the culture who recognize the need for reform. This is a key factor for overcoming cultural resistance to reforms, and achieving the desired change.

In particular, in order to address DoD planning problems, I have identified an improved nine-step planning process that builds on DMR recommendations and makes use of existing processes. To address DoD program execution problems, I have identified eight recommendations, three of which relate to contractor incentives for controlling cost. I also have identified an approach for building on the PEO concept in a manner that links planning and execution, a key requirement for resolving the paradox. Finally, I have put forward six principles that DoD should use in formulating quantitative measures of success -- a management pillar that has been largely ignored by DoD, but is required for efficient achievement of national security objectives.

In this time of declining budgets, global uncertainty, and numerous opportunities, both Congress and the Administration must work towards identifying high priority needs, allocating resources against those needs, and ensuring efficient execution of the programs consuming those resources. The recommendations in this report would focus defense resources on national security objectives, trace the allocation and use of those resources to achieve the objectives, and enable rapid adjustment to take advantage of emerging opportunities or to address problems.

FOOTNOTES

1. Senator Charles E. Grassley, THE DEFENSE MANAGEMENT CHALLENGE: Avoiding a Decade of Expensive Weakness, December 13, 1989, pp. 4-7.

2. Comptroller General Charles A. Bowsher, "Defense Budget and Program Issues in the Fiscal Year 1991 Budget," testimony before the U.S. Senate Committee on Armed Sevices, March 1, 1990.

3. Secretary of Defense Dick Cheney, DEFENSE MANAGEMENT REPORT TO THE PRESIDENT, July 1989, p.2.

4. Grassley, op. cit., p.6.

5. Cheney, op. cit., p.2.

6. U.S. Department of Defense, DEFENSE MANAGEMENT REPORT IMPLEMENTATION PROGRESS REPORT, January 1990, p.9.

7. Grassley, op. cit., pp. 23-4.

8. The PEOs are listed in the Military Service segments of the DEFENSE MANAGEMENT REPORT IMPLEMENTATION PROGRESS REPORT.

9. The DMR planning recommendations can be found on pp. 5-6. The implementation actions are addressed in the DEFENSE MANAGEMENT REPORT IMPLEMENTATION PROGRESS REPORT, pp. 4-5.

10. U.S. Department of Defense, JUSTIFICATION OF ESTIMATES FOR DEFENSE MANAGEMENT REPORT INITIATIVES, January 1990, pp. 42, 66-7.

11. Ibid., pp. 9-10.

12. Secretary of Defense Dick Cheney, "Statement of the Secretary of Defense Before the Senate Budget Committee In Connection with the FY 1991 Budget for the Department of Defense," February 5, 1990, p. 6.

13. Cheney, July 1989, op. cit., p.6.

14. U.S. Department of Defense, op. cit., note 6, pp. 4-5.

15. U.S. Army Materiel Command, MATERIEL FOR WINNING, 1989.

16. A munitions master plan, and other capability integration master plans, may still be needed in order to ensure sustainability considerations are efficiently addressed.

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18. Callie Berliner and James A. Brimson, COST MANAGEMENT FOR TODAY'S ADVANCED MANUFACTURING: The CAM-I Conceptual Design, Harvard Business School Press, 1988, pp. 164-6.

19. DEFENSE WEEK, February 12, 1990, p.13.

20. Berliner and Brimson, op. cit., p. 159.

CONVENTIONAL FORCE REDUCTIONS

A Dynamic Assessment

Joshua M. Epstein

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FOREWORD

A REVOLUTION in East-West military relations is under way in Europe; never has Western strategy been in such a state of flux. An early sign of dramatic change came on December 7, 1988, when, in his United Nations address, General Secretary Mikhail Gorbachev announced that the Soviet armed forces would be unilaterally reduced by half a million, a pledge quickly followed by announcements of unilateral cuts by East European nations. More momentous was the arms control proposal offered by the Soviet Union on March 6, 1989, at the opening of the Conventional Forces in Europe (CFE) talks in Vienna: the Soviets accepted NATO's demand that each side reduce the number of ground weapons to equal ceilings slighty below NATO's existing levels, an asymmetrical agreement that would impose vast reductions on the numerically predominant Warsaw Treaty Organization in return for comparatively minor Western cuts. Precisely because the Western reductions would be so limited, however, the CFE agreement is expected to produce insignificant savings in the West. With the opening of the Berlin Wall on November 9, 1989, and the upheavals in Eastern Europe that followed, there are even more widespread political and economic pressures for conventional force reductions beyond CFE.

Using a dynamic model of warfare he has developed, Joshua M. Epstein analyzes the current balance and demonstrates how Western security would progressively improve with the implementation of the Soviet and East European unilateral reductions, the CFE agreement, and a CFE II agreement under which NATO and the WTO would reduce forces to equal levels 50 percent below the levels specified in CFE I. Indeed, Epstein argues that the improvement under such a CFE II agreement would be sufficient to permit the United States to make further reductions unilaterally without detriment to Western security.

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BRUCE K. MAC LAURY
President

January 1990
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For his tireless and expert assistance, I am profoundly grateful.

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CHAPTER ONE

INTRODUCTION

Two of the more dramatic initiatives in postwar East-West relations were taken by the Soviet Union in late 1988 and early 1989. First, on December 7, 1988, in an address to the United Nations, Soviet General Secretary Mikhail Gorbachev announced a plan to reduce unilaterally the size of the Soviet armed forces by half a million, with cuts of particular relevance to NATO falling on Soviet divisions stationed in Eastern Europe. The East Europeans followed suit early in 1989, announcing plans for unilateral reductions of their own to be implemented, like the Soviet cuts, by 1991.

Next, on March 6, 1989, at the opening of the Conventional Forces in Europe (CFE) negotiations in Vienna, Soviet Foreign Minister Eduard Shevardnadze presented an arms control proposal under which NATO and the Warsaw Treaty Organization would each reduce conventional forces to common ceilings far below the WTO's current levels. Indeed, the Soviets accepted NATO's proposal for deep asymmetrical reductions to 20,000 tanks and 28,000 armored personnel carriers on each side in the Atlantic-to-the-Urals (ATTU) region.

While much of the Western debate revolves around the political and economic motivations that may or may not underlie these Soviet actions, this study focuses on their *military* implications. Specifically, it begins by addressing two fundamental questions. First, assuming they are implemented, what will be the *military* effect on the current conventional balance of the unilateral reductions announced by the Soviets and East Europeans? Second, what would be the military effect of implementing the CFE agreement now under negotiation in Vienna?[1]

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[1] Core features of the CFE agreement are settled. Aspects not finalized at the time of this writing are treated by adopting what, for NATO, are the most conservative assumptions--for example, that the Soviet proposals for outstanding weaponry (for instance, artillery) are adopted. See chapter 4. Troop reductions, per se, are not modeled in this book. The weapon reductions that are explicitly modeled, however, would obviously entail substantial troop reductions.

Whatever its final details, the CFE agreement, while dramatically reducing the Warsaw Treaty Organization's forces, would have only a marginal effect on NATO's force structures and, notably, NATO's defense budgets. Yet any such agreement, especially following the WTO's unilateral cuts, is likely to solidify an enduring change in Western perceptions of the threat and to produce strong pressures to reduce forces further. It is therefore important to formulate and examine reduction plans that go beyond the initial CFE agreement (CFE I). A third goal of this book, accordingly, is to set forth and examine a number of post–CFE I regimes.

Organization of the Book

To gauge the effect on the European conventional balance of the WTO's unilateral initiatives, of the CFE agreement, and of reductions beyond CFE, it is necessary to begin with an assessment of the current balance itself. This is set forth in chapter 2. The aim of that chapter is to establish a conservative base case from which to gauge the *change in* NATO's security that would result from these prospective alterations. In a sense, this study is one huge sensitivity analysis. I believe the base case provides a conservative assessment of the current conventional balance in Europe, and I present my argument to that effect.

I do not claim to have a crystal ball, however. There are other plausible assumptions and other plausible assessments. But whether one accepts my assessment or not, let us fix on the larger, comparative issue: is NATO better off or is it worse off under the postulated alterations? Those who would prefer to begin that comparison with a different base case are free to do so. But one need not accept my base case to accept the overall *comparative* judgments developed here.

With the base case in hand (chapter 2), the same "test scenarios" are rerun under the WTO's announced unilateral reductions in chapter 3. They are then rerun assuming implementation of the prospective CFE agreement in chapter 4. And they are rerun under a range of post-CFE reductions and restructurings in chapter 5, where the important issue of "force to space" is addressed. Overall conclusions are given and discussed in chapter 6.

Conclusions

In summary, the conclusions are that NATO's security would progressively improve with the implementation of (1) the WTO's unilateral reductions; (2) the CFE agreement; and (3) a CFE II agreement under which NATO and the WTO reduce forces to equal levels 50 percent below the levels specified in CFE I. Indeed, for reasons explained in chapter 5, the improvement (over the current balance) under CFE II would be sufficient to permit the United States to make further, unilateral, reductions without endangering NATO's security.

Political Context

Even more dramatic than Gorbachev's announcement of unilateral reductions and the Soviets' initiatives at CFE were the Soviets' decision to permit the effective dismantling of the Berlin Wall on November 9, 1989, and the sweeping transformations in Eastern Europe that followed. Without question, these events represent a political watershed and hold out the prospect of eventually dismantling the Central European military confrontation.

Under the circumstances, a book analyzing war scenarios might seem anachronistic. Those who believe so are welcome to interpret this book as a work of contemporary analytical history, marking the Central European military balance as it was when the cold war ended. To my mind, the book could not be more timely or essential. Those who would resist progress in arms control (for instance, out of bureaucratic or vested interest) are likely to dismiss proposals for deep reductions, arguing that the recent upheavals in Eastern Europe and the apparent demise of Soviet control are—like Gorbachev's revolution itself—"reversible." Arms control, the argument runs, must be based not on intentions, but on capabilities, on "cold military realities," which have only begun to change.

This book's argument for deep reductions cannot be dismissed on those grounds. The analyses were conducted before the Wall's political demise and proceed on the hyperconservative assumption of unified WTO aggression against NATO. Even on that assumption, the book recommends mutual reductions 50 percent below CFE with unilateral U.S. reductions beyond.

Obviously, if one is prepared to relax that hyperconservative political assumption, then even more dramatic reductions become tenable. The image of East Germans fighting West Germans is already farfetched. It seems only a matter of time before Soviet forces leave Eastern Europe and the WTO dissolves as a unified military threat to the West. At that point, with a CFE agreement in place, the rationale for a U.S. military presence in Central Europe would come into serious question. If, in addition to reducing their forces under CFE and withdrawing their residual forces in Eastern Europe, the Soviets were to restructure for defense in depth beginning at the Soviet border, the rationale for a U.S. military presence based on large-scale military threats to West Germany would all but evaporate.

If the CFE agreement is implemented, and the East Europeans consolidate their independence, and the Soviets withdraw, how much U.S. force, if any, should remain in Europe? And precisely whom would it be protecting against what? With CFE I (or CFE II) in place, should the United States agree to Soviet proposals that both superpowers withdraw all forces from Europe?

Such questions will obviously command attention. And, though its immediate goals are more limited, this book provides all the data and all the analytical tools needed to examine a wide range of possible future security arrangements in Europe.

Methodology

Indeed, while addressing questions of practical importance, the book's most enduring contributions are, in my view, methodological; it seeks to set a standard of explicitness and analytical rigor for the field.

The technique of dynamic analysis is employed in this study. An explicit mathematical model is used to simulate the mutual attrition of engaged ground and air forces, the flow of reinforcing units into battle, and the movement of battle fronts over time, under a range of clearly specified test scenarios.[2] The approach is entirely general, and remains applicable to other military balances even if—as hoped—the NATO-WTO military confrontation "withers away." The specific equations employed are an extended version of the adaptive dynamic model. This is presented and discussed in appendix A, which seeks to advance the mathematical theory of combat in its own right.[3] Analogies to theoretical ecology—predator-prey modeling in particular—and to cybernetics are exploited.

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[2] The alternative, static, approaches—reliance on bean counting and rules of thumb—are patently inadequate to the task at hand, as I have argued elsewhere. See Joshua M. Epstein, "Dynamic Analysis and the Conventional Balance in Europe," *International Security*, vol. 12 (Spring 1988), pp. 154–65; and Epstein, "The 3:1 Rule, the Adaptive Dynamic Model, and the Future of Security Studies," *International Security*, vol. 13 (Spring 1989), pp. 90–127. See also, Epstein, *Measuring Military Power: The Soviet Air Threat to Europe* (Princeton, 1984), pp. xix–xxx.

To run my model and simulate combat in the scenarios of interest, a number of numerical assumptions concerning technical and behavioral factors are required. Beyond the mobilization capabilities of each side, these concern such variables as casualty-exchange ratios for ground forces and daily sortie rates (missions per day) for close air support planes. These detailed assumptions have been cleared from the general reader's path but are fully and explicitly presented for expert scrutiny in appendix B. Here, original empirical research is presented and brought to bear in estimating key model parameters. All mobilization assumptions are given, along with their sources, in appendix C. A number of sensitivity analyses on the important casualty-exchange ratio are given in appendix D.

In short, one may dispute the results. But, because all assumptions and methods are openly stated, those results are *replicable*.

Many important and interesting questions are not taken up in this study. Verification and NATO's nuclear modernization are among them. Similarly, outcomes would vary depending on the Soviet Navy's success in interdicting NATO's sea line of communication and NATO's success in interdicting reinforcements from the Soviet Union, neither of which campaigns is explicitly modeled here. This is a partial analysis focused on what I believe to be the core military capabilities that would be altered by the WTO's unilateral cuts and by deeper reductions in the ground and tactical air forces of NATO and the WTO.

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[3] The advantages of the original adaptive dynamic model over Lanchester models and the attrition-FEBA expansion model have been set forth elsewhere. On deficiencies of Lanchester's equations and their contemporary extensions, see Joshua M. Epstein, *The Calculus of Conventional War: Dynamic Analysis without Lanchester Theory* (Brookings, 1985); and Epstein, "Dynamic Analysis and the Conventional Balance in Europe," pp. 159–62. Shortcomings of the attrition-FEBA expansion model are set forth in Epstein, "Dynamic Analysis and the Conventional Balance in Europe," p. 160 and pp. 160–61, note 11; and in Epstein, "The 3:1 Rule, the Adaptive Dynamic Model, and the Future of Security Studies," pp. 123–24, note 84. As I wrote in the latter article, my equations "are not perfect or all-encompassing; but are they *better*? I believe so. Can they be improved further? Of course" (p. 124). In appendix A some improvements are offered. Those who resist mathematical modeling per se, should consider the following argument:

> Anyone who has an opinion on the balance has made implicit judgments about the most important factors, or variables, and about the ways in which those variables would interact in time and space. In short, they have a model. And to close one's eyes and imagine a Soviet romp across Germany or an adept NATO repulse is in fact to run that model of war. The only difference between a so-called "modeler" and the rest of the field is the former's willingness to systematically explicate his or her assumptions. But this difference is critical. No real progress is possible without clear, *explicit* hypotheses about the dynamics of combat. Indeed, without some explicit theoretical framework, it will not even be clear what to measure, what data to collect. Any hope of a *testable*—and ultimately *tested*—theory will be lost."

Epstein, "The 3:1 Rule, the Adaptive Dynamic Model, and the Future of Security Studies," p. 118. On quantification generally, see, in addition to the above writings, Epstein, *Measuring Military Power: The Soviet Air Threat to Europe* (Princeton University Press, 1984), pp. xix–xxx.

CHAPTER TWO

THE CURRENT CONVENTIONAL BALANCE IN NATO'S CENTRAL REGION: THE BASE CASE

BECAUSE warfare is a dynamic process including many factors beyond sheer numbers, a static enumeration of forces does not constitute an assessment of the balance. While accounting is not sufficient, it is certainly necessary.

As an essential first step in the analysis, complete ground force mobilization and deployment schedules for NATO and the Warsaw Treaty Organization must be postulated. One may dispute endlessly whether or not particular countries, such as France, should be included, and for how long. Such questions cannot be answered definitively. Participation could well depend on the specific constellation of political events that precipitate the war, and on politics during the war. To assess the sensitivity of military outcomes to changes in such political assumptions, one can, of course, run the analysis with selected countries of each alliance omitted or by having them drop out—or even defect—during the war.[1] But to get an analysis under way at all, some set of assumptions must be made. For the base case analysis, standard assumptions are used. For instance, France is included. Turkey, Greece, and Spain are not. The United States is assumed to withhold forces for Korea, the Persian Gulf, and lesser contingencies outside Europe. The Soviet forces assumed to be withheld are identified in the notes to table C-1 of appendix C. Tables C-1 and C-3 of that appendix provide detailed country-by-country lists of all forces included and their potential arrival times at the central front. These mobilization schedules are the wartime reinforcement schedules, assuming no interdiction by either side.

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[1] For modeling purposes, dropping out might be treated as negative reinforcement.

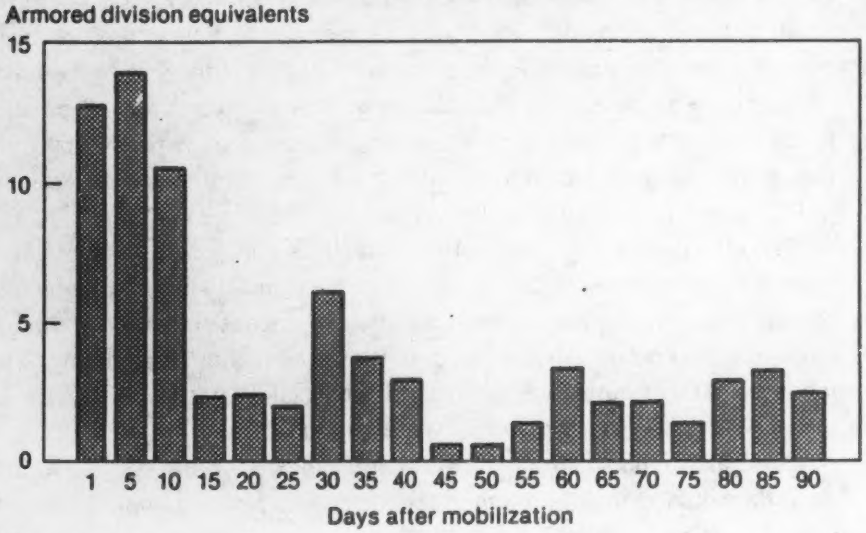
The forces of each side are scored in a *modified version* of the Weapon Effectiveness Index/Weighted Unit Value III (WEI/WUV III) system recently declassified by the U.S. Army.[2] For example, helicopters are taken out and treated separately in the close air support component of the modeling, as are air defenses. This scoring system, which can itself be subjected to sensitivity analysis, permits the conversion of disparate opposing forces into common numerical units called armored division equivalents (ADEs), which are shown on the vertical axes of figures 2-1 and 2-2. The WEI/WUV system has many of the strengths and weaknesses of other aggregate indexes, such as gross national product, which collapse into one aggregate homogeneous measure a heterogeneous collection of things. Gross national product is useful for purposes of economic modeling. The modified ADE figures are also useful when taken not as conclusive in their own right but as inputs to dynamic models.[3]

Close air support can have a substantial impact on the battlefield and must be included in a thorough assessment. The forces assumed for each side are shown in table 2-1.

[2] U.S. Army, Concepts Analysis Agency, *Weapons Effectiveness Indices/Weighted Unit Values III (WEI/WUVIII)*, CAA-SR-79-12 (Bethesda, Md., November 1979). Modifications are specified in the notes to table C-1.

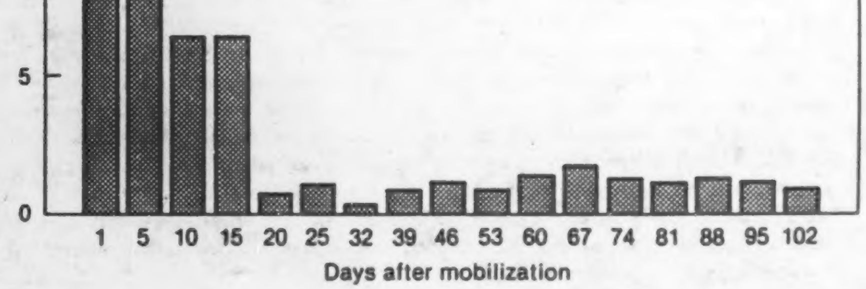
[3] Some have objected to the use of ADEs in dynamic models on the ground that, as one critic put it, "the WEI/WUV-ADE methodology was not developed for use in dynamic models of combat"; see Charles A. Kupchan, "Setting Conventional Force Requirements: Roughly Right or Precisely Wrong," *World Politics*, vol. 61 (July 1989), p. 548. Of course, group theory was not developed for use in physics, calculus was not developed for use in economics, and the laser was not developed for use in eye surgery. Yet, in each case, and in countless others, the entity in question turns out to be invaluable in applications not anticipated by the developer. So, too, in this case. The main choice, at bottom, is between a disaggregated (heterogeneous) model in which diverse weapon interactions (antitank versus tank, artillery versus infantry) are separately modeled, and an aggregate (homogeneous) model in which a single index, such as an ADE, is used. The advantage of heterogeneous models is their detail; but detail comes at the expense of mathematical transparency and requires a large number of judgments concerning the allocation of the disparate fires across disparate possible targets. Homogeneous aggregate models lack the detail of heterogeneous models but permit one to revealingly capture primary dynamics with relatively simple mathematics, while avoiding a swamp of fire-allocation decisions. *Any* aggregate model requires that weapons be (a) categorized (for example, tanks, artillery), (b) weighted by category (since a pistol should count for less than a tank in armored war), (c) scored by weapon (since an M-1 tank is better than a T-55), and (d) summed over the unit (such as a division) in question. Basically, if one chooses a simple aggregate model, there is no alternative to using some index of this sort. And any index of this sort is going to look—algebraically—very much like an ADE. One can debate the *numerical* judgments made in assigning category weights or weapon effectiveness scores. And one can conduct sensitivity analyses on those values. But it is scientifically naive to assert that because X was "not developed for" application A, it cannot be successfully employed in that capacity.

FIGURE 2-1. **Arrival of WTO Reinforcements at Central Front**



Source: appendix C.

FIGURE 2-2. **Arrival of NATO Reinforcements at Central Front**



Source: appendix C.

TABLE 2-1. **NATO and WTO Close Air Support (CAS) and Battlefield Air Interdiction (BAI) Forces at Mobilization and M + 10 Days**

NATO					WTO				
	CAS		BAI			CAS		BAI	
Country & weapon	M day	M+10	M day	M+10	Country & weapon	M day	M+10	M day	M+10
United States					USSR				
F-111			140	220	MIG-21			45	45
A-10	108	520			MIG-27			405	405
F-16A/B			240	461	SU-17			180	225
A-7				252	SU-24			45	45
F-4			24	386	SU-25	90	240		
Apache AH-64	264	380			MI-24 HIND	630	1,050		
AH-15	208	408			Czechoslovakia				
Belgium					MIG-21			30	30
Mirage 5BA	25	25	25	25	MIG-23			40	40
F-16A/B			36	61	SU-7			50	50
Alpha Jet	32	32			SU-25	25	25		
Canada					GDR				
CF-18			36	36	SU-22			40	40
Denmark					MIG-23			24	24
F-16A/B			30	30	Poland				
Draken	16	16			MIG-17			80	80
PAH-1		12			SU-7			30	30
					SU-22			120	120
					Total	745	1,315	1,089	1,134

France				
Mirage F-III			73	73
Mirage F-5F			30	30
Jaguar-A		15	24	101
Alphajet	40	40		
SA-342	35	70		
SA-341	13	13		
Germany				
F-1046			80	80
F-4F			60	60
Tornado	20	20	83	124
Alphajet	80	80	73	91
PAH-1	105	105		
Netherlands				
F-16A/B			68	68
F-5	49	70		
UK				
Tornado			108	180
Harrier	31	51		
Jaguar		24	48	84
Lynx AH-1	55	120		
Total	1,081	2,001	1,178	2,362

Sources: David C. Isby and Charles Kamps, Jr., *Armies of NATO's Central Front* (London: Jane's, 1985); "USAF Almanac," *Air Force Magazine*, vol. 71 (May 1988); "Defence in Canada," special issue 1, *NATO's Sixteen Nations*, vol. 33 (1988); Robert Jackson, *NATO Air Power* (Novato, Calif.: Presidio Press, 1987); "NATO Center Region Military Balance Study, 1978–1984," Office of the Assistant Secretary of Defense for Program Analysis and Evaluation, July 13, 1977; Michael Skinner, *U.S.A.F.E.: A Primer of Modern Air Combat in Europe* (Novato, Calif.: Presidio Press, 1983); John Collins and Bernard C. Victory, *U.S./Soviet Military Balance: Statistical Trends, 1987–1988*, 87-745-8 (Congressional Research Service, September 1, 1987); Congressional Budget Office, *U.S. Ground Forces and the Conventional Balance in Europe* (June 1988); and International Institute for Strategic Studies, *The Military Balance, 1988–1989* (London, 1988).

Most analyses prudently assume some lag between the Warsaw Pact's mobilization day (Pact M-day) and NATO's. NATO might not have unambiguous warning of WTO mobilization. And even if it did, the alliance's response could be sluggish due to political inertia, the fear that overreaction might provoke attack, or other factors. The exact lag has always been debatable, and cannot be predicted. Of course, if one assumes NATO would never react, then questions of force structure—of material adequacy—become moot. A recently declassified Pentagon analysis of the balance assumes a 5-day lag in NATO's mobilization.[4] This means that if the WTO were to attack after 90 days of mobilization (Pact M+90), NATO would have had 85 days (NATO M+85) of mobilization. This assumption can be relaxed in sensitivity analyses. Assuming the 5-day lag, the WTO and NATO ground force mobilization schedules are directly compared in figure 2-3. Each curve simply cumulates the incremental ADEs given in figures 2-1 and 2-2, assuming a 5-day gap. The *ratio* of WTO ground forces to NATO ground forces at each point in this mobilization race is shown in figure 2-4. It is interesting, though hardly conclusive, to notice that on these assumptions, the WTO would never acquire a theaterwide edge exceeding 1.8 to 1 and that were both military establishments fully mobilized, the WTO's theaterwide preponderance would settle at around 1.65 to 1.

At what point in its mobilization might the WTO launch an attack? In war, the choice of attack time is one important prerogative of the aggressor. Because it is highly uncertain, one must examine a spectrum of possibilities. This study uses four. They are shown in table 2-2. At one end of the range (scenario I) is a short-mobilization attack on NATO's in-place forces by selected Soviet units deployed in Eastern Europe, with WTO and NATO reinforcing echelons flowing into the ongoing battle. In the base case simulations, reinforcements are assumed to arrive on the schedules given in tables C-1 and C-3 of appendix C, which are plotted in figure 2-3. At the opposite end of the attack time spectrum is scenario IV, an attack after virtually full mobilization by both sides. Scenarios II and III represent intermediate possibilities. All four assume the 5-day NATO lag noted above, and include the close air support forces listed in table 2-1.

At the theater level of warfare, attackers have the initial advantage of

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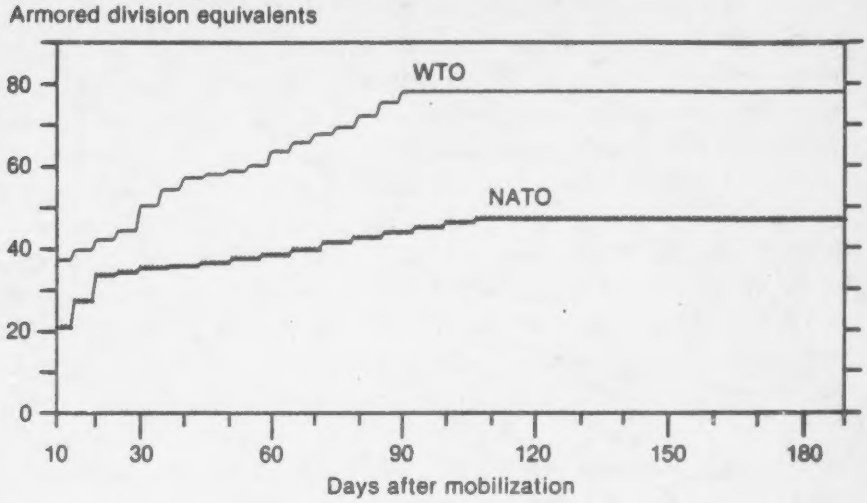
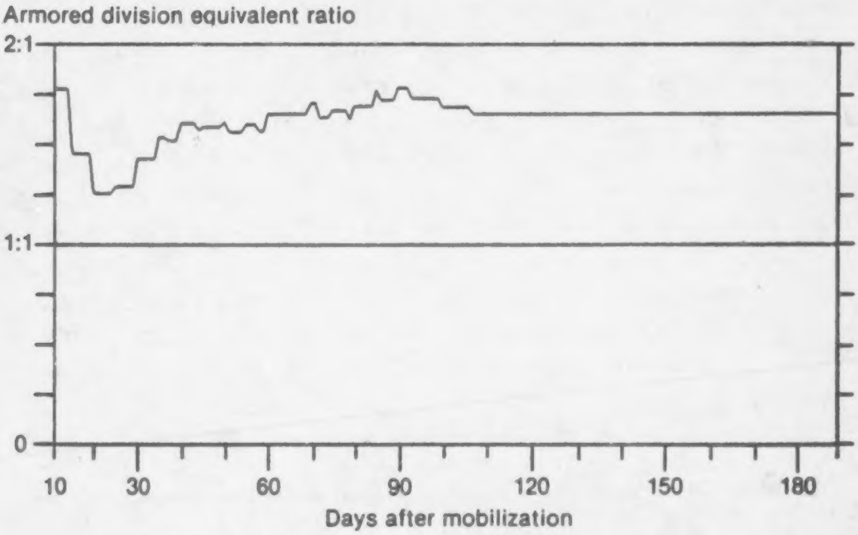
[4] Office of the Assistant Secretary of Defense for Program Analysis and Evaluation, "NATO Center Region Military Balance Study, 1979–1984," Department of Defense, July 13, 1979, p. I-25.

FIGURE 2-3. **WTO versus NATO Mobilization Schedules, 1989**



Source: appendix C.

FIGURE 2-4. **Ratio of WTO Forces to NATO Forces during Mobilization, 1989**



Source: appendix C.

TABLE 2-2. **Base Case Scenarios, Days of Mobilization before Attack**

Scenario	WTO	NATO
I	10	5
II	30	25
III	60	55
IV	90	85

being able to choose not only the *time* but also the *place* of their main efforts. In a Central European war, the Soviets would be expected to focus concentrations of force on particular sectors of NATO's front in hopes that the local preponderance, combined with aggressive prosecution of the attack, could be exploited to produce defensive paralysis, collapse, penetration, or defeat in detail. To counter these efforts, NATO would have to exhibit dexterity in applying its forces across the central front. By "dexterity" I mean the ability to *detect* evolving concentrations, *decide* what countering units are needed and where they should come from, *communicate* (securely) those decisions in the form of orders to the chosen units, and *move* those units to the threatened area, all of this before it is too late. The Soviets would doubtless attempt to interfere with each of these steps, and NATO would try to counter those efforts at interference, which efforts, in turn, the Soviets would seek to thwart, and so on, in a welter of measures, countermeasures, and counter-countermeasures.

One's assessment of the balance depends heavily on one's assumptions concerning NATO's dexterity in this sense.

Simulations Assuming Perfect Dexterity

If one assumes perfect dexterity on NATO's part—that is, that the proportional distribution of NATO's force up and down the front equals the WTO's at all times—then the current balance is very good. Applying the mobilization assumptions of appendix C and performance assumptions of appendix B in the extended adaptive dynamic model in appendix A, the Western alliance comes from behind to thwart the WTO in each of the four basic attacks without loss of West German territory.[5]

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[5] In discussing simulation results, two issues must constantly be kept distinct: attrition and territorial sacrifice. These processes are related in the adaptive dynamic model, which makes no judgment as to the definition of "victory." In the model it is possible to overtake the adversary

This is shown in figures 2-5 to 2-8. While intimidating at first glance, these simulation graphs are straightforward and will repay study. For instance, figure 2-5 simulates attack scenario I. Because on the day of attack (D-day) the WTO has mobilized for 10 days and NATO has mobilized for 5, the development is referred to as a "10/5 scenario." At the outset, the WTO attacks with nearly 40 ADEs (where the WTO curve intercepts the vertical, ADE, axis). NATO defends initially with 21. Over time, shown on the horizontal axis, each side reinforces as it fights. The jagged spikes represent points at which reinforcements enter the fray (from figures 2-1 and 2-2). These reinforcements, a moderately favorable ground-to-ground casualty-exchange ratio (1.7 attackers killed for each defender killed),[6] and a more effective close air operation permit NATO to prevail. On the assumptions employed here (see appendix B for full details) there is no territorial sacrifice by NATO. Similar tales are told by figures 2-6, 2-7, and 2-8.

In all cases, NATO comes from behind to win the attrition war without loss of territory. The longer the mobilization, the less spikey these curves become, since the later the attack the fewer the remaining reinforcements. In scenario IV (figure 2-8) for example, virtually all the WTO and NATO forces are included at the outset, so very few reinforcement spikes remain.

The main point is clear. *With perfect dexterity*, NATO wins the attrition war without losing territory. *With imperfect dexterity*, NATO can do poorly.

Simulations Assuming Imperfect Dexterity

As the simplest possible illustration of the problem of imperfect dexterity, let us reconsider the least complicated of the basic scenarios—the fully mobilized attack—under somewhat different assumptions about the spatial distribution of forces. Specifically, rather than the perfect coun-

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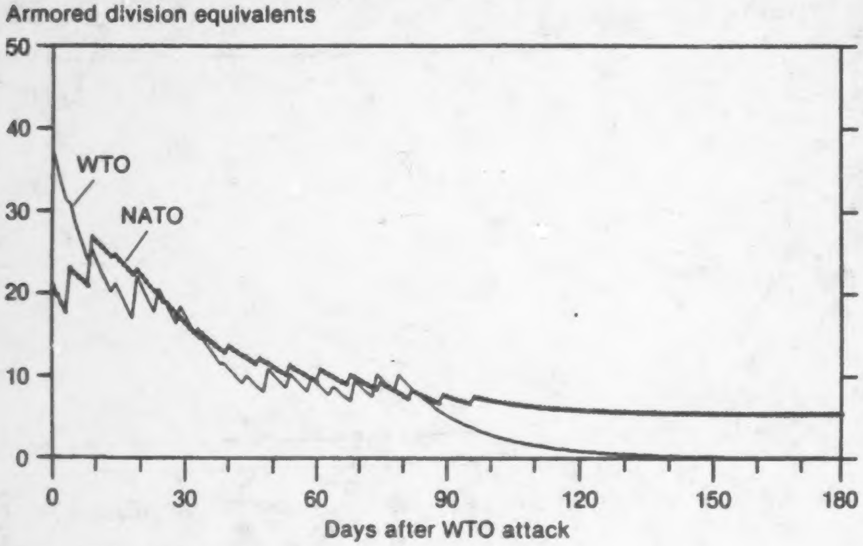
in the attrition sense after sacrificing 500 kilometers of territory; it is far from clear that one should classify such an outcome as a "win" for NATO. Rather than burden the text with constant reminders of the distinction, I freely use phrases like "thwart the WTO without losing territory" on the understanding that "thwart," or words like it, will here be read as applying strictly to the attrition war. Each reader is free to decide whether a given attrition/movement outcome constitutes an overall "victory" or overall "defeat" for NATO, the WTO, for both, or for neither (the latter two being understudied possibilities).

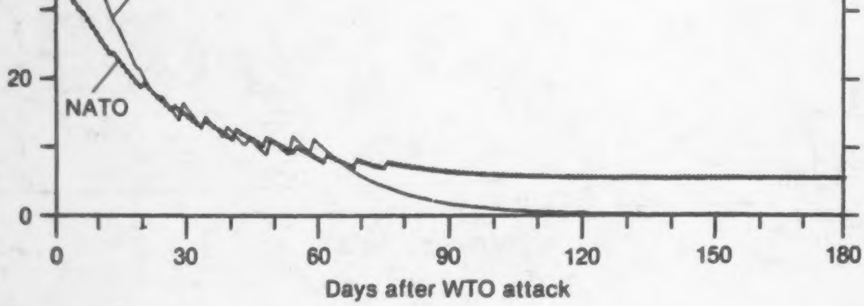
[6] This estimate is discussed at length in appendix B.

FIGURE 2-5. **Scenario I (10/5), Mutual Attrition**



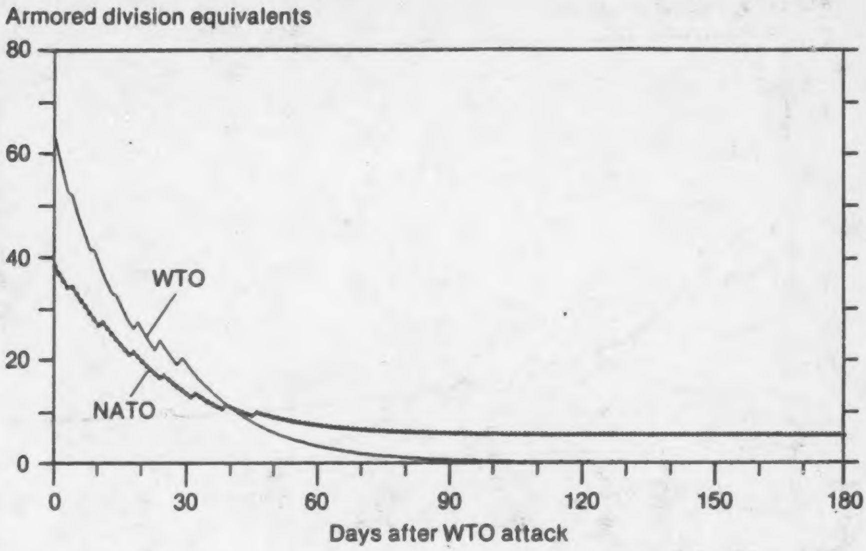
Sources: appendixes A, B, and C.

FIGURE 2-6. **Scenario II (30/25), Mutual Attrition**



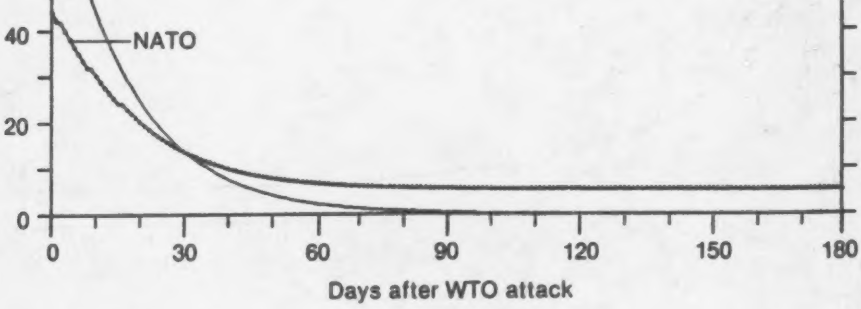
Sources: appendixes A, B, and C.

FIGURE 2-7. **Scenario III (60/55), Mutual Attrition**



Sources: appendixes A, B, and C.

FIGURE 2-8. **Scenario IV (90/85), Mutual Attrition**



Sources: appendixes A, B, and C.

FIGURE 2-9. **Theater-Level Misallocation**

NATO	WTO
40%	60%
60%	40%

terconcentration assumed in the previous simulations, imagine that the WTO allocates 60 percent of its forces to NATO's northern half and 40 percent to NATO's southern half, and that NATO does just the reverse, as illustrated in figure 2-9. If all other assumptions are left exactly as they were in the previous cases, the effect of this failure to counterconcentrate efficiently is dramatic, as shown in figures 2-10 and 2-11. Figure 2-11 simply plots total kilometers lost by NATO (on the vertical axis) against time in days (on the horizontal axis).

NATO does not come from behind to win in the north; it is badly defeated. Moreover, if—to be evenhanded—the WTO is credited with the same defensive advantages (relative concealment and preparation of firing positions) in the south as NATO is assumed to enjoy in the north, and if it is credited with the same casualty-exchange ratio, then NATO cannot successfully counterattack in the south. NATO's northern withdrawal rate (its rate of retreat) climbs to 20 kilometers a day, and the cumulative territorial sacrifice is disastrous.

Now, for NATO to permit a 60:40 versus 40:60 overall misallocation to develop over nearly full mobilization and then to maintain that misallocation through the first ten days of a conventional war would be a major blunder.[7] This gross misallocation is, to be sure, a worst case, but will nonetheless prove a revealing test case for conventional arms control.

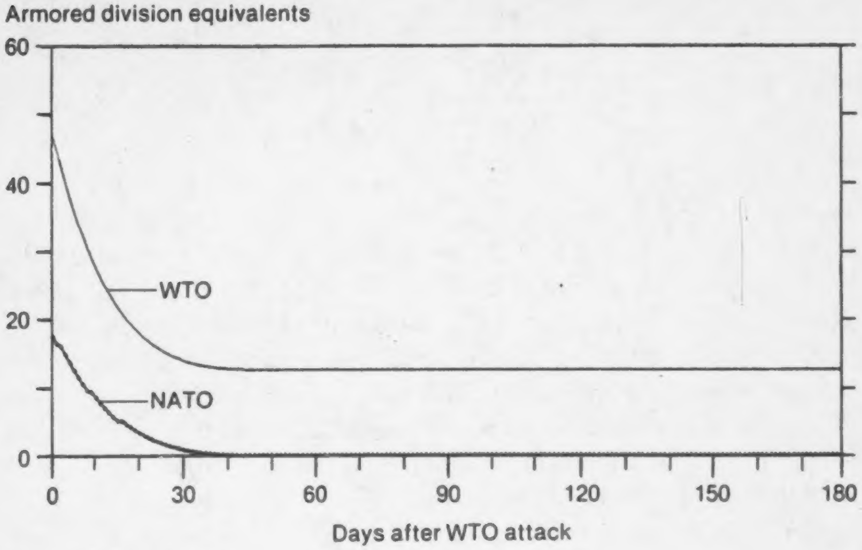
While a 60:40 versus 40:60 asymmetry after nearly full mobilization (scenario IV) is of debatable plausibility, the same asymmetry early in mobilization is worrisome because of NATO's peacetime maldeployment problem.[8] Specifically, a 60:40 versus 40:60 asymmetry at the outset of scenario I (the 10/5 short-mobilization attack) is a reasonable surrogate for the canonical "surprise" attack. This is a second way in which NATO

---

[7] NATO is assumed to correct to 60:40 at D+10, ten days after war begins. Close air support is assumed to track the ground allocations on both sides.

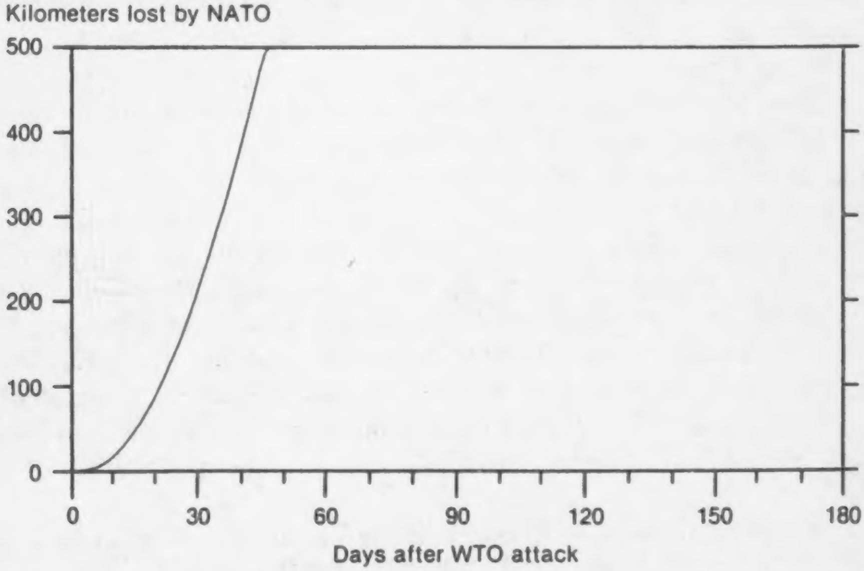
[8] NATO's most powerful forces are in the south.

FIGURE 2-10. **Scenario IV, 60:40 versus 40:60 Initial NATO Misallocation, Mutual Attrition in the North**



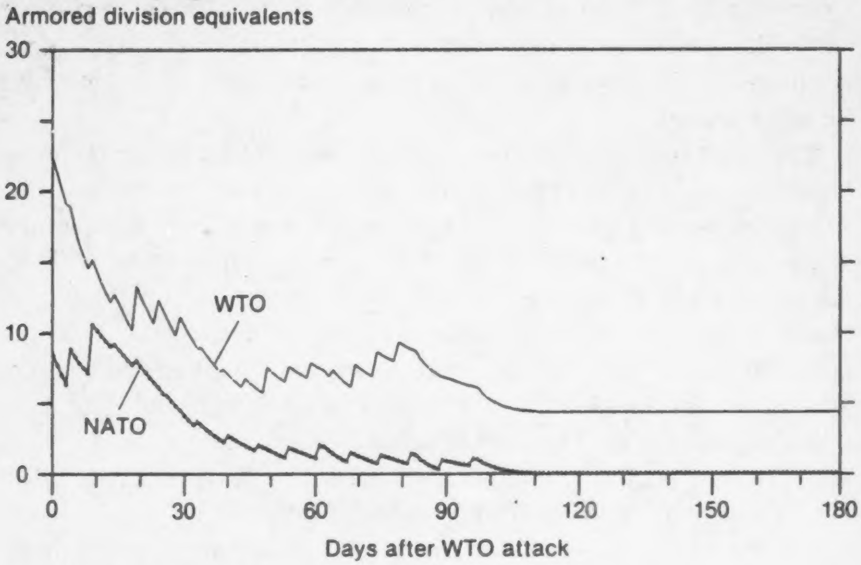
Sources: appendixes A, B, and C.

FIGURE 2-11. **Scenario IV, 60:40 versus 40:60 Initial NATO Misallocation, Movement of the Front in the North**



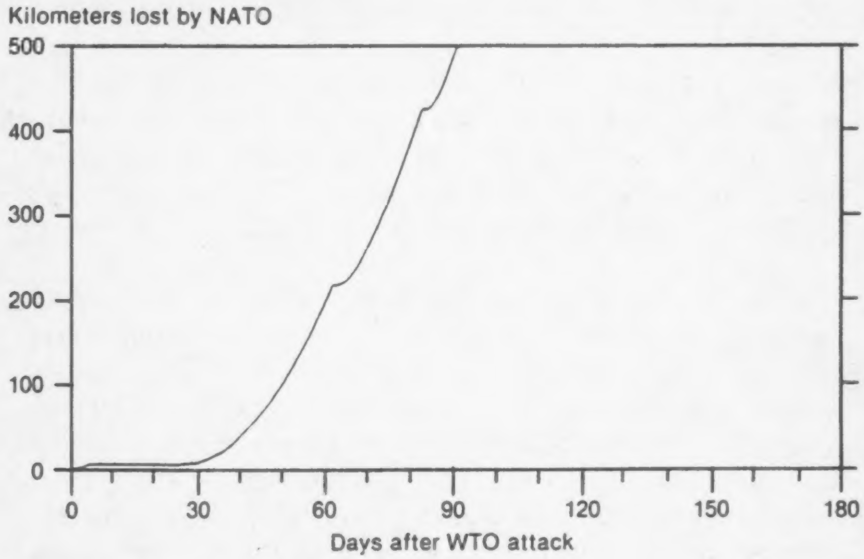
Sources: appendixes A, B, and C. Although the adaptive dynamic model imposes no upper limit on territory lost in principle, a practical upper limit of 500 kilometers is assumed in this book.

FIGURE 2-12. **Scenario I, 60:40 versus 40:60 Initial NATO Misallocation, Mutual Attrition in the North**



Sources: appendixes A, B, and C.

FIGURE 2-13. **Scenario I, 60:40 versus 40:60 Initial NATO Misallocation, Movement of the Front in the North**



Sources: appendixes A, B, and C.

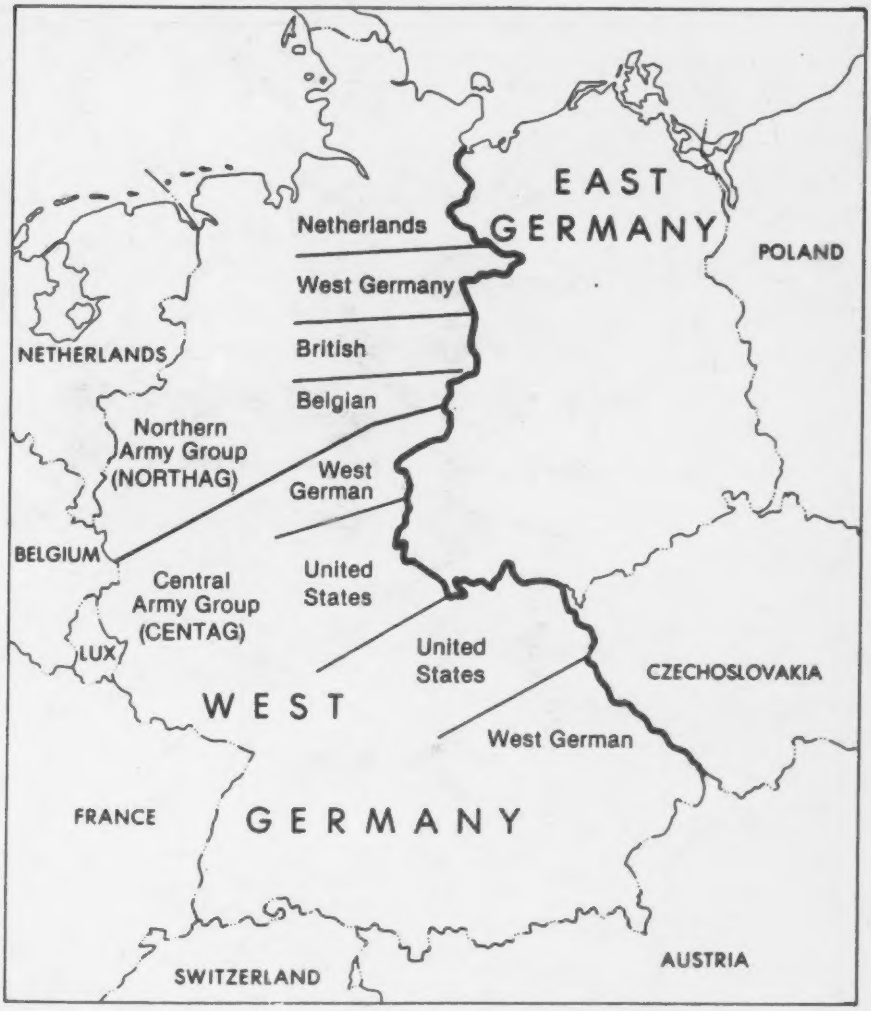
could plausibly lose, even assuming a fairly dextrous correction by NATO. Figure 2-12 assumes that NATO corrects to 60:40 itself after 10 days of combat (on D + 10). As shown, this correction is not sufficient to produce an attrition stalemate (NATO never quite catches up); and, vast territory is still lost in this contingency. This scenario provides a second test case for arms control.

One might conclude from these computer runs that the answer is simply to correct NATO's peacetime maldeployment and be done with it. Of course that would help, but it solves the problem only if one assumes the attack plan employed above; the WTO always bashes ahead with 60 percent here and 40 percent there. In reality there are eight corps sectors (figure 2-14). And notwithstanding such critical terrain obstacles as the Harz Mountains, there are many areas where concentration could occur. While I find implausible the sophisticated dance of veils that some have hypothesized, a classic multisectoral attack with feints cannot be ruled out. This case is often referred to as "large-scale offensive action." The idea would be to trick NATO into reinforcing the wrong corps sectors, then penetrate elsewhere. NATO's eight corps sectors are shown in figure 2-14.

Malcolm Hoag colorfully formulated the problem: "Suppose the Pact plan were designed to generate the impression that each of NATO's eight corps was being hit with at least one main attack, if only to capitalize upon the political point that each of NATO's Central Front governments will be made to fear that 'their' army was vitally threatened at one or more places. Suppose, however, that only three of the eight Pact attacks (say upon NATO's II, IV, and VII Corps) were main attacks, while the remaining five were fixing attacks designed to look like main attacks." In the fixing attacks, or feints, for instance, WTO forces might be instructed to prosecute the attack ferociously and to absorb heavy losses

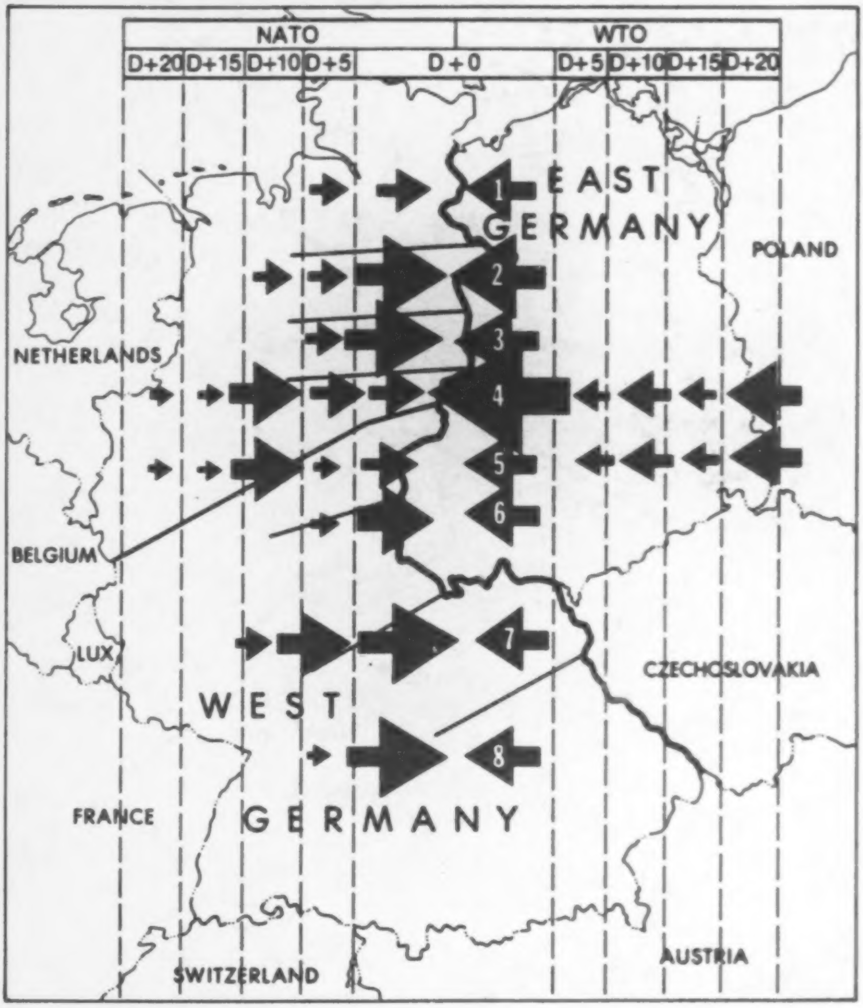
> to maximize the "noise level." In the inevitable "fog of war," that might all too convincingly look like a main attack to a defender. . . . [Since] each of eight NATO ground corps commanders worries about his sector being chosen by the enemy for a main attack and trains his forces for this eventuality, in wartime he may mistake a fixing attack for a main attack. NATO's commander will have good reason to worry about the availability of intelligence in such a situation. His nightmare is that each of the eight corps commanders will simultaneously be requesting all the help that he can get, with

FIGURE 2-14. **NATO's Eight Corps Sectors**


EAST GERMANY
POLAND
Netherlands
West Germany
British
Belgian
NETHERLANDS
Northern Army Group (NORTHAG)
West German
BELGIUM
Central Army Group (CENTAG)
United States
LUX
United States
CZECHOSLOVAKIA
WEST GERMANY
West German
FRANCE
SWITZERLAND
AUSTRIA

each request appearing to be equally valid. If he apportions his air and other resources uniformly among the corps, in despair about obtaining better intelligence about the ground battle in time, he knows that he is moving toward that enemy-preferred uniform allocation that will waste his precious resources. Yet if he withholds

FIGURE 2-15. **Multisectoral WTO Attack with Feints**


NATO
WTO
D+20
D+15
D+10
D+5
D+0
D+5
D+10
D+15
D+20
EAST GERMANY
POLAND
NETHERLANDS
BELGIUM
LUX
CZECHOSLOVAKIA
WEST GERMANY
FRANCE
SWITZERLAND
AUSTRIA
1
2
3
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5
6
7
8

> his support until the situation becomes clearer, he may withhold it too long and be faced with enemy breakthroughs.[9]

This is the realm of theater strategy; there is no fixed allocation of defensive force that would manage the problem. NATO would have to adapt during the war—when its adaptive apparatus would be attacked—and unless its dexterity were high, it might not fare well.

---

[9] Malcolm W. Hoag, *Strengthening NATO Capabilities: A "Hi-Lo" Ground Force Mix for Area Defense*, R-2039-AF (Santa Monica, Calif.: Rand Corp., 1977), p. 5. For a demanding definition of the term "breakthrough," see T. N. Dupuy and others, *A Study of Breakthrough Operations*, DNA 41245 (Fairfax, Va.: Historical Evaluation and Research Organization, 1976), p. 1.

From the hundreds of attacks that might be constructed, no one can predict *the* multisectoral, multiecheloned attack plan the Soviets would select, nor at this juncture can anyone predict the efficiency with which any plan selected would be countered by NATO. It is possible, however—indeed it is essential—to construct paradigmatic cases to gauge the effect of *changes* in force structure, notably those that would be produced by arms control. One such case is represented in figure 2-15. The NATO and WTO arrows are proportional in size to the number of armored division equivalents involved in the action depicted. Corps sectors are listed in the large arrow heads. The days on which attacking and defending forces arrive in each corps sector are indicated across the top. The exact reinforcement schedule (the actual ADE numbers) by corps sector for NATO and the WTO is given in full in appendix C, table C-5. Essentially, the WTO sets up a big threat to corps sector IV; and NATO goes for it, allocating most of its reinforcement to that sector. The real breakthrough then occurs in the now underreinforced corps sector V, despite the fact that the WTO's follow-on forces are equal in sectors IV and V. Indeed, the result is a blowout in corps sector V, as shown in figures 2-16 and 2-17.

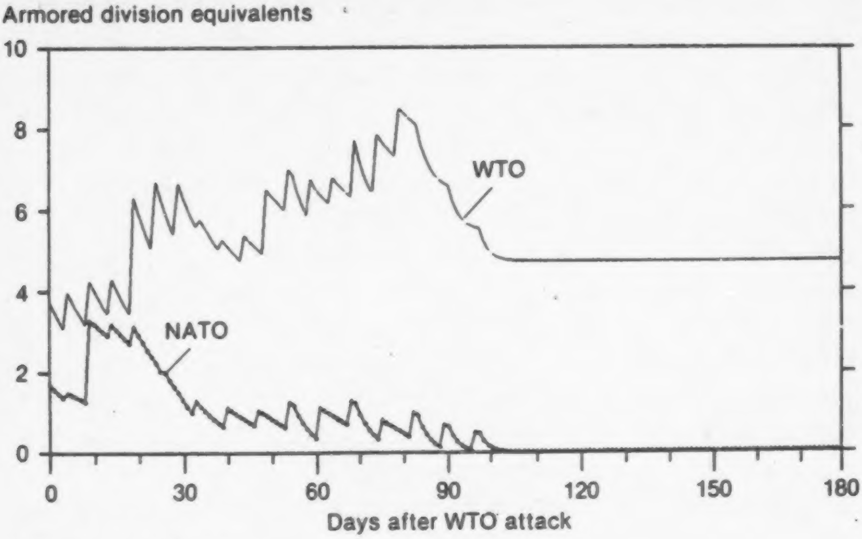
Figure 2-18 interprets this movement graph in the theater context, giving the front's "traces" over time for this contingency.

Summarizing the results thus far, if NATO's dexterity is perfect, the conventional balance is fine. If NATO's dexterity is imperfect, the alliance could find itself in rather desperate straits over a range of scenarios. Theater-level dexterity, in short, would appear to be the linchpin of NATO's conventional defense. If the demand for dexterity is high, what can be said of the supply?

Need for a Dexterity Net Assessment

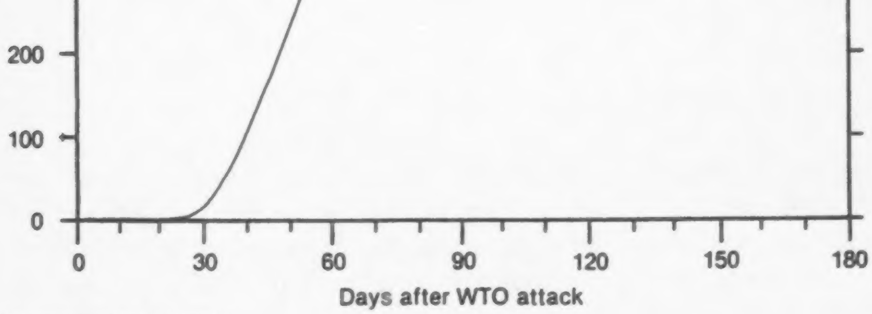
First and foremost, this is a topic deserving much more attention than it has received, or will receive here. Indeed, I will do little beyond pointing out the uncertainties surrounding the four fundamental components of counterconcentration that were noted earlier: detection, decision, communication, and movement.

FIGURE 2-16. **Multisectoral Feint Attack with Imperfect NATO Dexterity, Attrition History in Corps Sector V**



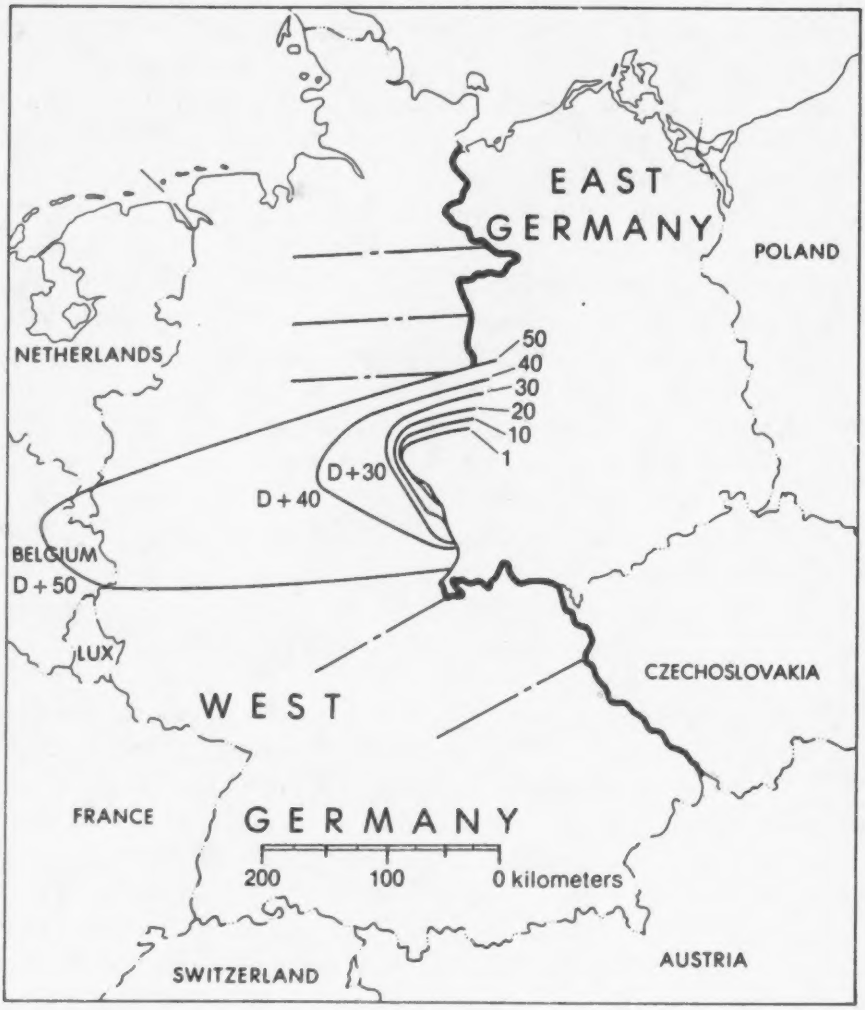
Sources: appendixes A, B, and C.

FIGURE 2-17. **Multisectoral Feint Attack with Imperfect NATO Dexterity, Movement of the Front in Corps Sector V**



Sources: appendixes A, B, and C.

FIGURE 2-18. **The Front during Multisectoral Feint Attack, Imperfect NATO Dexterity**


EAST GERMANY
POLAND
NETHERLANDS
50
40
30
20
10
1
D+30
D+40
BELGIUM
D+50
LUX
CZECHOSLOVAKIA
WEST GERMANY
FRANCE
200
100
0 kilometers
SWITZERLAND
AUSTRIA

Detection

The sine qua non of dexterity is, of course, detection. NATO would have to identify evolving WTO concentrations on the ground, and the information would have to be available to NATO commanders in time to matter. NATO has recognized the problem for a long time, and has spent heavily on intelligence satellites, remotely piloted vehicles, and aircraft such as the reconnaissance version of the F-4 (the RF-4) and TR-1, to pick up WTO ground concentrations. The joint surveillance/target attack radar system (JSTARS) is designed to track armored movements deep behind enemy lines and, unlike its predecessors, it is designed to do so in real time. But according to the Office of Technology Assessment, to see deep, JSTARS must operate close to the forward line of NATO's own troops where it would be potentially vulnerable. The air force argues that the system can be operated from 150 kilometers behind NATO's lines. In any case JSTARS would be a very bright emitter of radio signals and a high-value target, deserving and probably receiving considerable attention from the Soviet Air Force.[10] Moreover, it is not yet clear whether, or by what procedures, JSTARS's imagery would be distributed to non-U.S. corps sectors.[11]

NATO's ability to detect concentration efforts is generally regarded as good, but a rigorous assessment would estimate the theater reconnaissance system's susceptibility to electronic countermeasures (jamming, deception) and its physical vulnerability (while airborne and while on its bases, for aircraft) to attack.

Decision

Just as in the prewar phase, warning is one thing, response is another. Once sensors have detected a concentration of armor on the move, their data must be successfully transmitted to high-echelon command posts. There, information from diverse sources must be processed and presented to authorities in a format facilitating informed choices among tactical alternatives. Is the armor concentration a feint? If it is a true main breakthrough effort (or a follow-on force designed to exploit an imminent penetration), what forces should be applied to counter it, and where should they come from—neighboring corps sectors or operational reserves? NATO's lead in computers and information processing is obviously valuable here. But, again, is one prepared to assume errorless and timely decisionmaking?

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[10] Office of Technology Assessment, *New Technology for NATO: Implementing Follow-On Forces Attack*, OTA-ISC-309 (June 1987), pp. 9–10.

[11] I am grateful to Paul B. Stares for this information.

Communication

Next, decisions must be communicated to the units whose fire is to be brought to bear in the threatened area. Orders from high echelons down to corps commanders are the most secure since they can be transmitted over land lines (the microwave towers used in peace are vulnerable), by satellite, or ultimately, by helicopter. Communications at the tactical level—among the units affected—are more vulnerable, though much more redundant. Field radios can be subjected to point and barrage jamming, as was shown in the 1973 Arab-Israeli war. The problem has, of course, been recognized, and NATO would attempt to counter WTO jamming with electronic counter-countermeasures. But the likely outcome of that competition is hard to judge.[12]

Deployment

Assuming that NATO decides to counter a WTO concentration, the countering units, having received their orders, would have to deploy to the threatened area, in time to take up prepared positions affording them traditional defensive advantages. Just as in the command and control area, NATO has spent heavily on logistics for precisely this reason, and therefore a degree of optimism is surely warranted. Certainty, however, is not. While Soviet airpower has very serious limitations, it could make a challenging problem harder by degrading the command and control and logistical infrastructure needed to counterconcentrate and by attacking NATO's reinforcing units as they move. Even if one penalizes Soviet tactical airpower harshly for technological backwardness and operational rigidity, it could damage NATO's dexterity, as could other WTO weapons.

It seems to me that, until more research is done, there will be significant uncertainties in the detection, decision, communication, and deployment chain that constitutes NATO's theater-level dexterity.[13] Pending a more definitive resolution of this question, it seems prudent to relax the assumption of perfect dexterity and consider the contribution of unilateral WTO reductions and negotiated mutual asymmetrical cuts to the solution of the three idealized test cases constructed earlier.

---

[12] Many of these issues and other questions of command and control, are examined in Paul B. Stares, *Command Performance: The Neglected Dimension of European Security* (Brookings, forthcoming).

[13] Moreover, even if one considers each "link" in the detection-decision-communication-deployment chain to be highly reliable, the overall probability of at least one failure is notable. For example, if the independent probabilities of successful detection, decision, communication, and deployment are all 95 percent, the overall probability of a successful chain is $(0.95)^4$, or 81 percent. And, for three simultaneous breakthrough efforts the probability of at least one failure would be nearly 50 percent. I thank Bruce G. Blair for this point.

Test 1: Initial 60:40 versus 40:60 NATO misallocation in scenario I (10/5).

Test 2: Initial 60:40 versus 40:60 misallocation in scenario IV (90/85).

Test 3: NATO misallocation under a multisectoral feint attack.

To begin, which, if any, of these problems would be solved by the unilateral cuts recently announced by Gorbachev and the East Europeans?

CHAPTER THREE

THE UNILATERAL WTO CUTS

On December 7, 1988, Mikhail Gorbachev announced at the United Nations that by 1991 the Soviet Union would unilaterally reduce its overall troop strength by 500,000, of which 50,000 would come from Central Europe. There, 6 tank divisions would be cut and, in the Atlantic-to-the-Urals region overall, 10,000 tanks, 8,500 artillery pieces, and 800 combat aircraft would be cut. This dramatic announcement was followed by East European pledges to reduce their forces unilaterally. As reported by Moscow, the overall reductions are shown in table 3-1. Since these announcements, sufficient details concerning the units affected have become available to permit the translation of these cuts into the ADE scores used in the analyses here.[1] The detailed accounting of WTO reductions by unit and the computations converting those reductions into ADEs are presented fully in tables C-6 and C-7 of appendix C. Table 3-2 summarizes the results.

With all else fixed, the implementation of these reductions would have a significant impact on the WTO's mobilization capability, as shown in figure 3-1. NATO, the bottom curve, is held at its current (1989) level. Clearly, the WTO mobilization curve shifts downward upon institution of the reductions. Notice that it shifts down *early* in mobilization, reflecting the concentration of Soviet reductions on units stationed in Eastern Europe proper. The reductions' effect on the WTO-to-NATO force *ratio* over the course of mobilization is also illuminating. This is shown in figure 3-2. Whereas today, the ratio levels off at 1.65 to 1, the unilateral reductions would depress the advantage to 1.4 to 1.

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[1] In this analysis, and in the analyses of CFE I and CFE II below, weaponry reduced is generally assumed to be destroyed. Technically, it might be sold rather than destroyed. In any case, it is assumed never to reenter the ATTU region.

TABLE 3-1. **Projected Reduction of Armed Forces and Military Budgets in Warsaw Pact Countries as of 1991**

Countries	Troops	Tanks	Armored vehicles	Guns and mortars	Combat aircraft	Military budget (percent)
Bulgaria[a]	10,000	200	0	200	20	12
Hungary	9,300	251	30	430[b]	9	17
GDR	10,000	600	0	0	50	10
Poland	15,000	0	0	0	0	7.7–5.5[c]
Romania[d]	0	0	0	0	0	0
Czechoslovakia[e]	12,000	850	165	0	51	15
Total (except USSR)	56,300	1,901	195	630[b]	130	0
USSR forces in Europe[f]	240,000	10,000	0	8,500	800	14.2
Total in Europe	296,300	11,901	195	9,130[b]	930	0
USSR forces in Asia	200,000	0	0	0	0	0
USSR forces in the south	60,000	0	0	0	0	0
Grand total	556,300	11,901	195	9,130[g]	930	0

Source: From "Warsaw Pact Forces, Budget Reduction Figures" (in Russian), *Argumenty I Fakty* , no. 6 (February 1989), p. 8.

a. Five warships also cut.

b. Includes 180 antitank weapons.

c. Of the state budget.

d. In 1986 Romania reduced its military budget and arms by 5 percent.

e. Divisional and regimental tactical training sessions are being reduced by 50 percent and combat fire by 25 to 30 percent.

f. Production of military equipment and arms is being reduced by 19.5 percent.

g. Includes 540 antitank weapons.

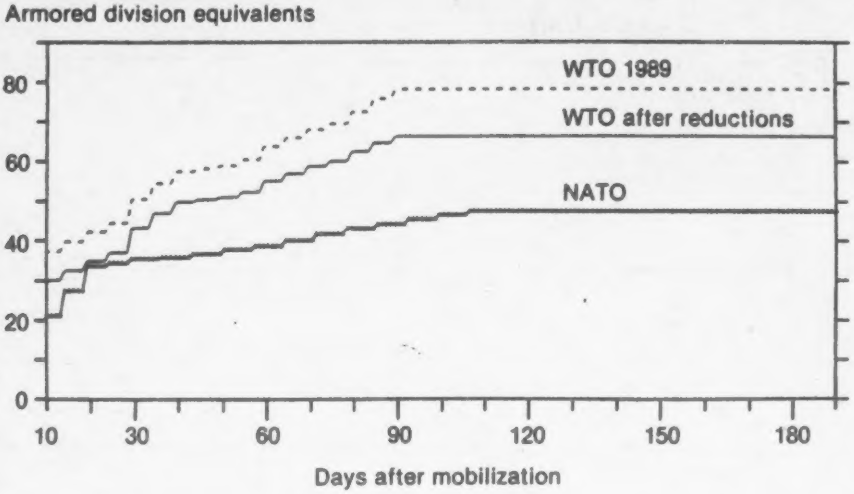
While these reductions are obviously a step in the right direction, their operational military significance for specific scenarios of interest cannot be gauged by comparisons of combat *inputs*. What effect do these reductions have on combat *outcomes*—mutual attrition and the movement of battle fronts over time—in the scenarios of interest? Specifically, which, if any, of the three test cases developed in chapter 2 are remedied by the unilateral initiatives?

TABLE 3-2. **Projected Unilateral Reductions Scored in ADEs**

Country	1989	WTO reductions	1991
USSR	61.3	8.1	53.2
GDR	4.0	0.5	3.5
Czechoslovakia	6.4	0.8	5.6
Poland	6.5	2.7	3.8
Total WTO	78.1	12.1	66.1

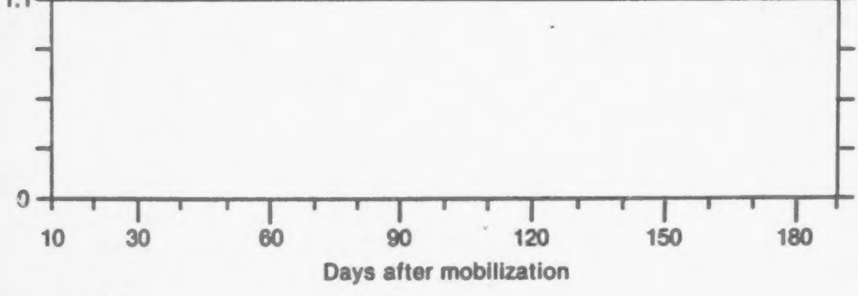
Source: appendix C. Totals may not add due to rounding.

FIGURE 3-1. **WTO versus NATO Mobilization Capabilities before and after Unilateral WTO Reductions**



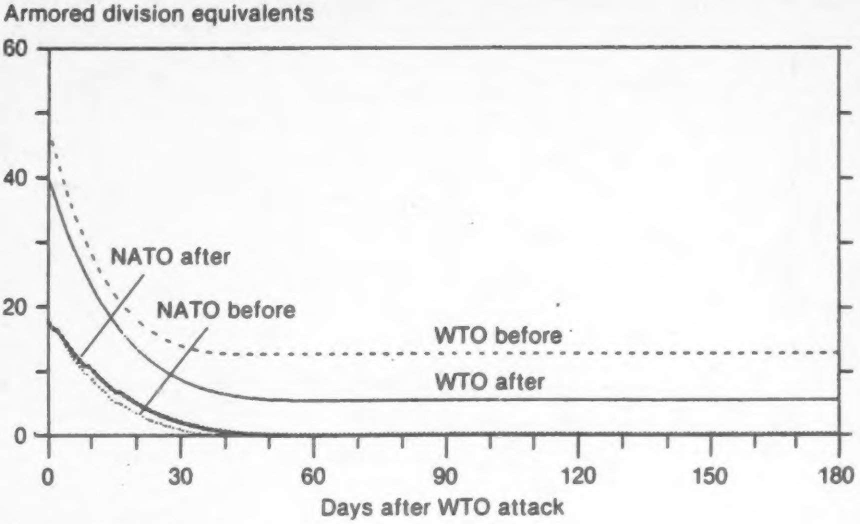
Source: appendix C.

FIGURE 3-2. **Ratio of WTO Forces to NATO Forces during Mobilization before and after Unilateral WTO Reductions**



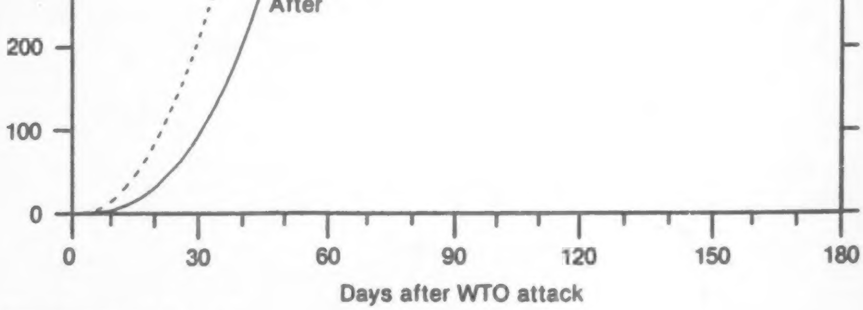
Source: appendix C.

FIGURE 3-3. Scenario IV with 60:40 versus 40:60 Initial Misallocation, Attrition in the North before and after Unilateral WTO Reductions



Sources: appendixes A, B, and C.

FIGURE 3-4. Scenario IV with 60:40 versus 40:60 Initial Misallocation, Movement of the Front in the North before and after Unilateral WTO Reductions



Sources: appendixes A, B, and C.

The second of the imperfect dexterity test cases was a 60:40 versus 40:60 misallocation in scenario IV (90/85)—the fully mobilized case—with a NATO correction 10 days after attack (D+10). The WTO's unilateral cuts, unfortunately, do not save the day. Indeed, they do not come close to solving this problem, as shown in figures 3-3 and 3-4.

Similarly, the unilateral cuts alone do not reverse the outcome in test case 3, the multisectoral feint attack. Leaving all other assumptions as they were in chapter 2, the unfortunate course of events in corps sector V is virtually unchanged, as shown in figures 3-5, 3-6 and 3-7.

The unilateral reductions *would* have a big impact on the "surprise attack" problem, idealized here as test case 1, an aggregate NATO misallocation of 60:40 versus 40:60 in a short-mobilization (10/5) scenario with a NATO correction at D+10 (that is, ten days into the conflict). Under the unilateral cuts, NATO now comes from behind to win in the attrition sense, as shown in figure 3-8. In the adaptive dynamic model, as in real war, it is possible to "win" in the attrition sense, but to lose vast territory before overtaking the adversary.[2] Fortunately, the unilateral reductions have the additional benefit of stabilizing the front without territorial sacrifice in this scenario. Before, matters were quite different, as shown in figure 3-9.

I thus find myself in broad agreement with the Central Intelligence Agency's assessment that the unilateral reductions would go a long way to solving the "surprise attack" problem that has, for so long, concerned the West. I am skeptical, however, that this scenario ever deserved the attention it received. Intelligence assessments recently reported in the press suggest that the problem has been seriously overblown for some time.[3] And, in any event, other important cases are not handled by these reductions, beneficial as they certainly are. In conclusion, the WTO's unilateral reductions are militarily significant, but not revolutionary. I am not sure the same qualification applies to the Conventional Forces in Europe agreement under negotiation in Vienna.

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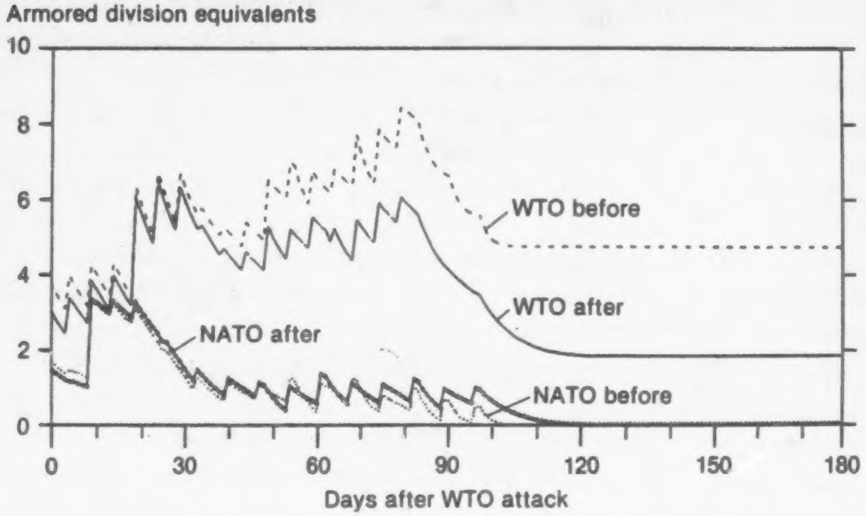
[2] See chapter 2, note 5.

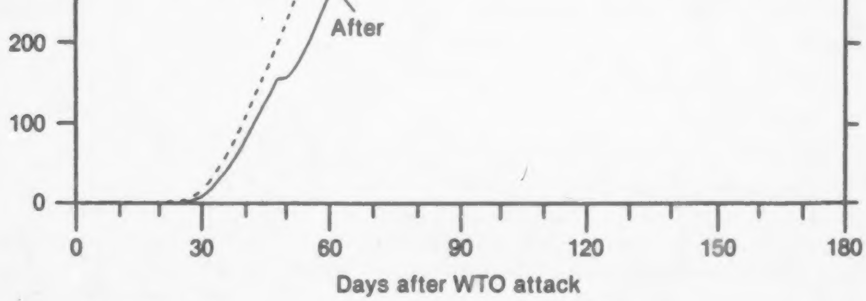
[3] In November 1989, the *Washington Post* reported that "The U.S. intelligence community, in a fundamental reassessment of the military balance in Europe, has concluded that for the past several years the Soviet Union and its Warsaw Pact allies have been incapable of quickly launching a massive attack against the West. . . ." Patrick E. Tyler and R. Jeffrey Smith, "Study Finds NATO War Plans Outdated," *Washington Post*, November 29, 1989, p. 1.

FIGURE 3-5. **Multisectoral Feint Attack with Imperfect NATO Dexterity, Attrition in Corps Sector V before and after Unilateral WTO Reductions**



Sources: appendixes A, B, and C.

FIGURE 3-6. **Multisectoral Feint Attack with Imperfect NATO Dexterity, Movement of the Front in Corps Sector V before and after Unilateral WTO Reductions**



Sources: appendixes A, B, and C.

FIGURE 3-7. **The Front during Multisectoral Feint Attack, with Imperfect NATO Dexterity after Unilateral WTO Reductions**

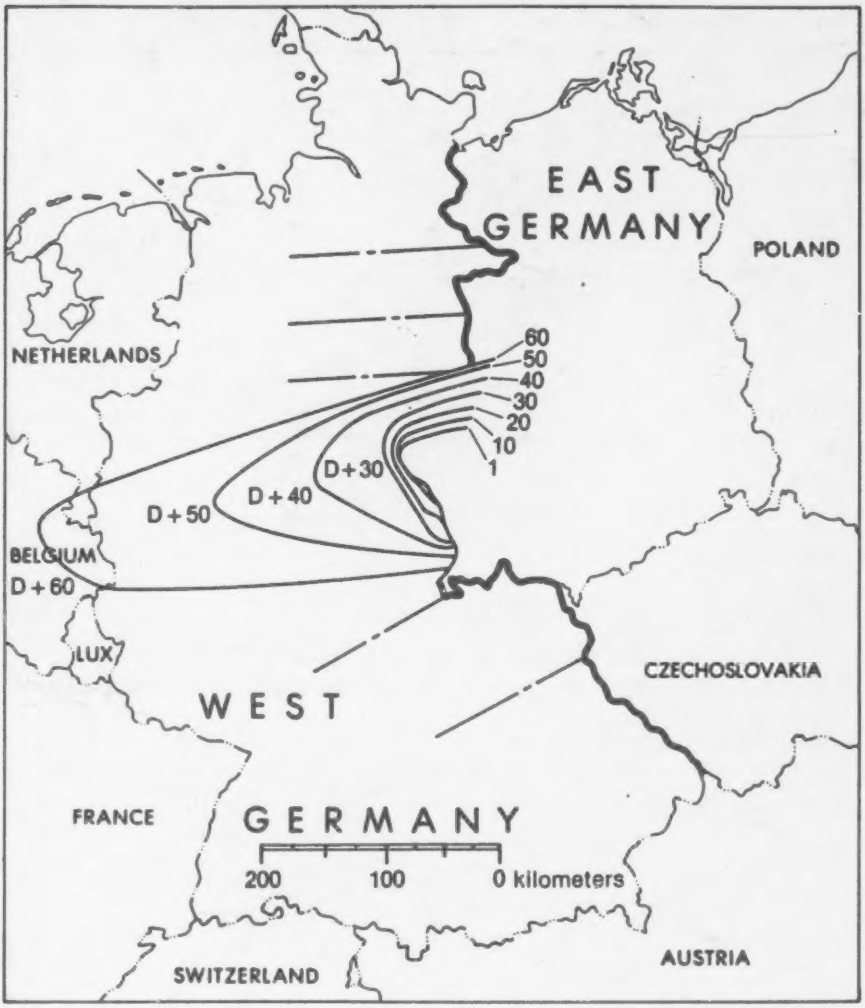
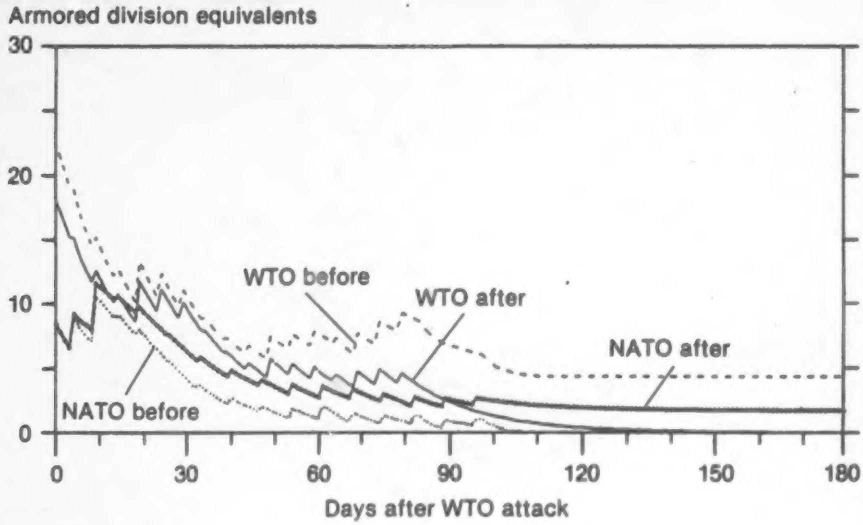
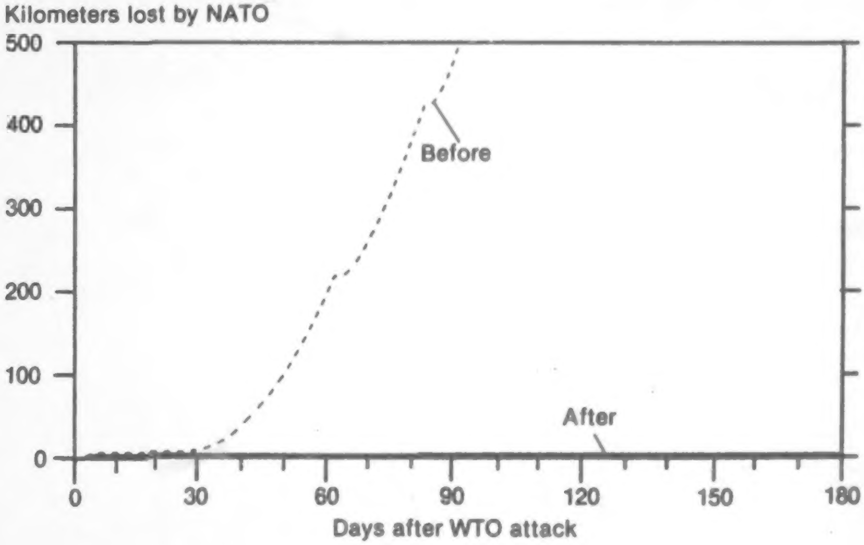

EAST GERMANY
POLAND
NETHERLANDS
60
50
40
30
20
10
1
D + 30
D + 40
D + 50
BELGIUM
D + 60
LUX
CZECHOSLOVAKIA
WEST GERMANY
FRANCE
200
100
0 kilometers
SWITZERLAND
AUSTRIA

FIGURE 3-8. **Scenario I with 60:40 versus 40:60 Initial NATO Misallocation, Attrition in the North before and after Unilateral WTO Reductions**



Sources: appendixes A, B, and C.

FIGURE 3-9. **Scenario I with 60:40 versus 40:60 Initial NATO Misallocation, Movement of the Front in the North before and after Unilateral WTO Reductions**



Sources: appendixes A, B, and C.

CHAPTER FOUR

THE CFE AGREEMENT

AT THE TIME of this writing, both sides had agreed to the principle of equal numerical ceilings in the Atlantic-to-the-Urals (ATTU) region for six force categories, with subceilings on (a) the overall levels deployable by any one country and (b) the levels any country could deploy outside its national territory. Numerically, the CFE agreement would impose deep asymmetrical reductions on WTO ground forces. Regarding weaponry, the terms of the agreement and differences outstanding as of December 1989 are shown in table 4-1.

Assessing CFE: The Ground Balance

As table 4-1 shows, the two sides have essentially converged on the core issues of ground weaponry. While the basic CFE concept is sufficiently clear to permit an analysis, it is important to state clearly how outstanding uncertainties were addressed.

First, where—as in the case of artillery—a *numerical* discrepancy remained, the most conservative interpretation was adopted; the Soviet proposal was assumed to be in force. Second, it is clear from table 4-1 that the CFE agreement does not at the time of this writing dictate how reductions are to be apportioned between newer and older generations of weaponry—for instance, tanks. Some judgment must therefore be exercised for analytical purposes. For conservatism's sake, within the CFE subceilings noted above, the WTO's reductions for each weapon category (for example, tanks) are orchestrated so as to maximize the WTO's post-reduction combat power, and, where possible, its mobilization speed. By contrast, NATO is not assumed to apportion its reductions to maximize on an alliancewide basis. Rather, each nation is assumed to take a per-

TABLE 4-1. **NATO and WTO Weapon Ceilings under the CFE Agreement**

Weapon category[a]	NATO	WTO
Tanks		
Each alliance	20,000	20,000
Any one country	12,000	14,000
Outside of national territory	3,200	4,500
Artillery pieces		
Each alliance	16,500	24,000
Any one country	10,000	17,000
Outside of national territory	1,700	4,000
Armored personnel carriers		
Each alliance	28,000	28,000
Any one country	16,800	18,000
Outside of national territory	6,000	7,500
Aircraft		
Each alliance	4,600	1,500
Any one country	. . .	1,200
Outside of national territory	. . .	350
Helicopters		
Each alliance	2,200	1,700
Any one country	. . .	1,350
Outside of national territory	. . .	600

Source: "European Arms Control after the NATO Summit," *Arms Control Today* (June-July 1989), p. 5.
a. There are differences in the ways these categories are defined by NATO and the WTO.

centage cut equal to the percentage cut imposed on the alliance at large, and to maximize its own national combat power (and, where possible, its mobilization speed). Clearly, the sum of these national maxima is less than the alliancewide maximum attainable in principle. For example, the CFE agreement calls for roughly a 10 percent cut in NATO's tanks deployed in the ATTU. It is assumed that Germany would cut the worst 10 percent of its tanks and that Turkey would cut the worst 10 percent of its tanks. But, the alliance as a whole would be better off if it were to take the entire reduction from Turkey's tanks alone. For purposes of modeling, then, within the CFE's sublimits, the WTO was assumed to maximize power in this fashion, alliancewide, while NATO was assumed to maximize by nation only.

From NATO's standpoint, this effect is more than offset by the size and asymmetry of the reductions. Indeed, if one confines attention to the forces traditionally considered in assessments of the central front balance, excluding Soviet forces opposite China, U.S. forces in Korea, and so forth, the numerical effect of the CFE agreement is stunning: *after* mobilization, NATO would outnumber the WTO in tanks, artillery, and armored vehicles.[1] The explanation of this remarkable effect is straightforward. The CFE agreement covers the ATTU region only. This includes virtually all the WTO forces of relevance to the central front. But it excludes very substantial NATO reinforcements from the continental United States (CONUS). NATO is permitted this margin from *outside* the ATTU after parity under CFE is imposed *inside* the ATTU. The Soviets have no comparable reinforcement from outside the ATTU. For example, *after* full mobilization of both sides, NATO would outnumber the WTO by some 3,500 tanks.[2]

Once a reasonable accounting has been achieved, it remains to translate the proposed numerical reductions into the combat scoring system one is using, in this case modified ADEs. All quantitative and qualitative accounting details and the computations converting the reductions into ADEs are explicitly provided in appendix C. Interpreted in this conservative fashion, the CFE agreement would lead to the comparative mobilization capacity shown in figure 4-1.

The WTO's fully mobilized ADE score is 45, down a notable 33 ADEs from its pre-CFE level of 78. This represents a reduction of over 42 percent. The effect of CFE on the WTO's mobilization capacity is strikingly depicted in figure 4-2.

NATO's fully mobilized ADE score falls by only 8 percent, largely because most of the American contribution to NATO—the CONUS-based reinforcement—lies outside the ATTU and, hence, is unaffected by CFE.

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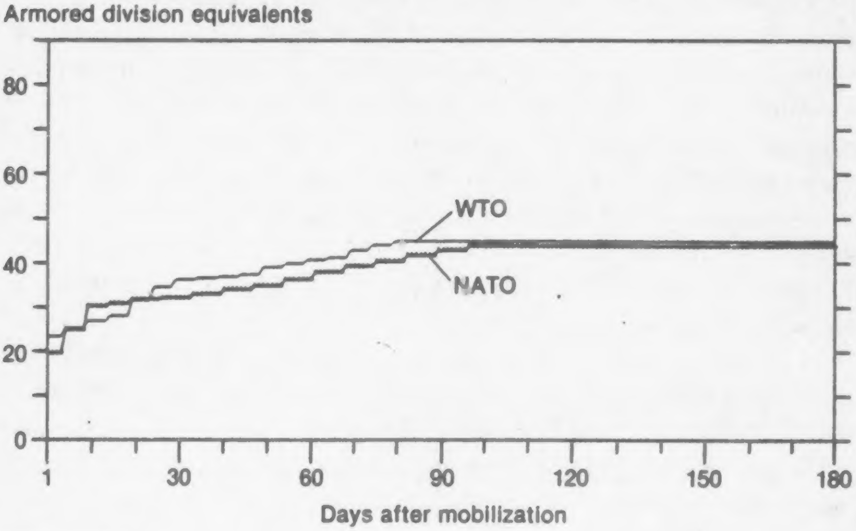
[1] Soviet forces opposite China have generally been omitted from assessments of the Central Front balance for some time. And, as previously noted, they are omitted here. First, Soviet far eastern forces are being reduced unilaterally. Second, the Soviets remain concerned with their Chinese border and are unlikely to leave it undefended. Third, the forces opposite China are, overwhelmingly, classified as category III, the lowest readiness status, indicating obsolescent equipment and low levels of manning and training. Fourth, the single railroad (the trans-Siberian) available for the redeployment of these forces to Europe could be interdicted with high confidence. Soviet intertheater mobility beyond the trans-Siberian railroad—airlift and trucks—is limited and, to my knowledge, no such redeployment has ever been practiced. The forces, moreover, might well be difficult to integrate into combat operations in Europe, for example, given language differences. For a Pentagon assessment omitting these Soviet forces, see Office of the Assistant Secretary of Defense for Program Analysis and Evaluation, "NATO Center Region Military Balance Study, 1978–1984," Department of Defense, July 13, 1979.

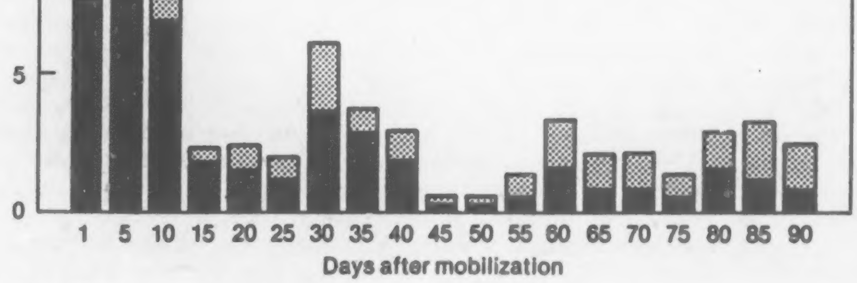
[2] NATO would not necessarily outnumber the WTO in ADEs, however, since ADEs include weapons not covered by CFE (for example, small arms, some types of mortars, and important types of antiarmor weapons).

FIGURE 4-1. **WTO versus NATO Mobilization after CFE**



Source: appendix C.

FIGURE 4-2. **WTO Mobilization before and after CFE**



Source: appendix C.

The highly asymmetrical agreement would produce a marked change in force *ratios* during mobilization, as shown in figure 4-3.

As noted earlier, ratio comparisons do not constitute meaningful assessments of the conventional balance before arms control or after. What do the CFE numbers mean in dynamic operational terms? Specifically, what effect would these cuts have on the two test cases outstanding from chapter 3, the gross 60:40 versus 40:60 misallocation at nearly full mobilization and the multisectoral feint attack case? *Both problems are effectively solved by the CFE agreement.* Figure 4-4 shows NATO's gross misallocation scenario under the projected CFE reductions. NATO comes from behind to "win" in the north without loss of territory. Finally, consider the previously disastrous case of NATO misallocation under a multisectoral WTO attack with feints. Under the CFE agreement NATO wins the attrition war and holds the WTO to a 15 kilometer advance in corps sector V.[3] These results are given in figures 4-5 and 4-6. The CFE reductions reverse the previous outcomes.

Now, some analysts may find these misallocation scenarios too pessimistic to begin with. To them, CFE simply improves on a good situation. Other, more pessimistic, analysts will find these scenarios quite plausible. But then they should be *even more* enthusiastic about CFE than the optimists since it fundamentally improves a bad situation. Indeed, even the most pessimistic have for decades conceded that NATO's qualitative advantages compensate *to some degree* for the WTO's quantitative preponderance. Under the CFE agreement, the Soviets would sacrifice their numerical advantage *and* permit NATO to retain its qualitative lead. Those who hold the WTO to be superior before CFE must grant that, by their own criteria, the CFE agreement reverses the balance.

In summary, under a conservative reading of the CFE reductions, they dramatically improve NATO's security. One may accept or reject my base case assessment of the current balance. But it is hard to imagine any convincing case in which the CFE cuts would leave NATO *worse off*. The change—the "delta," as it were—will be positive regardless of one's starting point, as suggested by the sensitivity analyses in appendix D.

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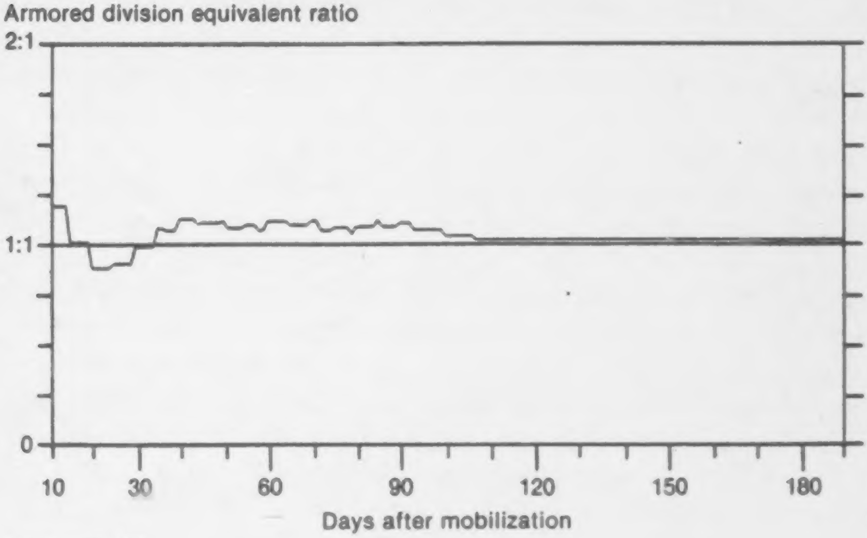
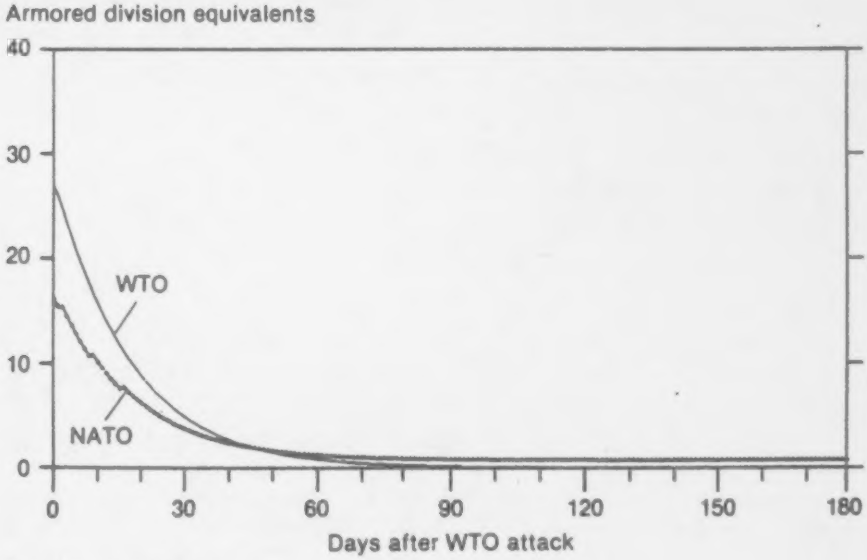
[3] This outcome satisfies reasonable definitions of forward defense. For instance, it falls well within the Rand Corporation's stalwart defense criterion (stalemate and loss of no more than 40 kilometers). James A. Thomson and Nanette C. Gantz, *Conventional Arms Control Revisited: Objectives in the New Phase*, N-2697-AF (Santa Monica, Calif.: Rand Corp., 1987), p. 6. In this analysis, close air support (CAS) is assumed to be reduced to a common ceiling 15 percent below the WTO CAS level given in table 2-1.

FIGURE 4-3. **Ratio of WTO to NATO during Mobilization after CFE**



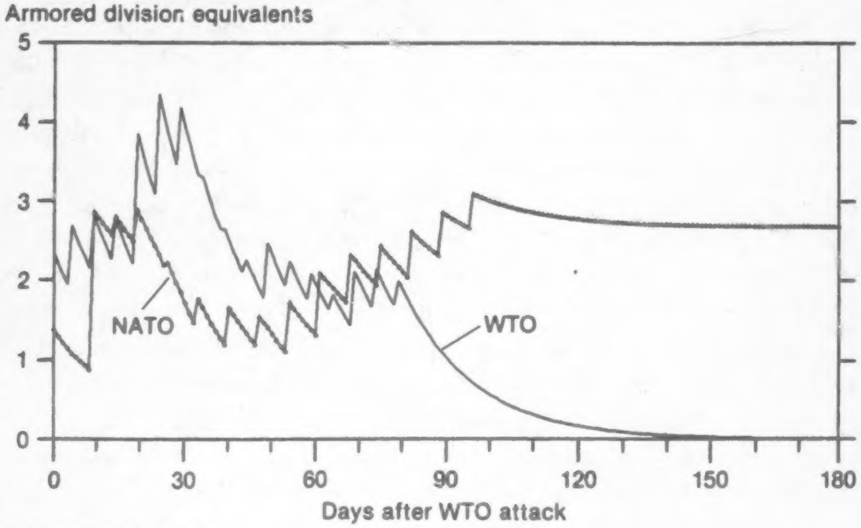
Source: appendix C.

FIGURE 4-4. **Scenario IV with 60:40 versus 40:60 Initial NATO Misallocation, Mutual Attrition in the North after CFE**



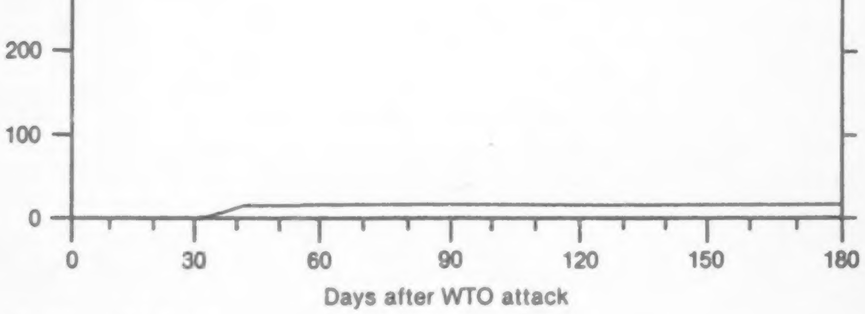
Sources: appendixes A, B, and C.

FIGURE 4-5. **Multisectoral Feint Attack with Imperfect NATO Dexterity, Mutual Attrition in Corps Sector V after CFE Reductions**



Sources: appendixes A, B, and C.

FIGURE 4-6. **Multisectoral Feint Attack with Imperfect NATO Dexterity, Movement of the Front in Corps Sector V after CFE Reductions**



Sources: appendixes A, B, and C.

Air Power: The Burden of Proof

The above simulations take account of close air support on both sides. Neither NATO's nor the WTO's CFE proposal would prohibit close air operations at the levels simulated in the analysis. The WTO's negotiating position on aircraft is currently in flux but appears to be gravitating toward NATO's more permissive overall ceiling for combat-capable aircraft on each side. It may be that the Soviets will in time accede completely to NATO's position. However, if Western intransigence on air power were to jeopardize the rest of CFE, especially its revolutionary benefits on the ground, a historic blunder will have been made. First, depending on how aircraft are counted, the WTO might be forced to endure larger numerical cuts than NATO en route to the equal ceilings proposed by the West. Moreover, those equal ceilings apply to *inputs*; but equality in inputs does not mean equality in *output*. By all accounts, NATO enjoys a substantial technological lead in aircraft. Further, NATO pilots fly more than twice as much as their Soviet counterparts, and the training is far more realistic. Historically, such qualitative factors have loomed larger than mere numbers in determining outcomes. Indeed, air-to-air combat is the prime example, as shown in table 4-2.

In World War II, American pilots in the Pacific theater lost only one plane for every ten Japanese planes they shot down—an exchange ratio of 10:1. In the Middle East war of 1967 (the Six-Day War), the Israelis scored a ratio of 20:1; in the Yom Kippur War of 1973, the ratio was 40:1; in Lebanon in 1982, it was over 85:1. These disparities are explained by technological advantages and above all by differences in pilot skill,

TABLE 4-2. **Exchange Ratios in Aerial Warfare**

Theater	Contestants	Winner[a]	Exchange ratio[b]
Pacific (World War II)	United States, Japan	United States	10:1
Korea (1950–53)	United States, North Korea	United States	10:1
Vietnam (1965–68)	United States, North Vietnam	United States	2.3:1
Vietnam (1970–73)	United States, North Vietnam	United States	12.5:1
Middle East (1967)	Israel, Arab states	Israel	20:1
Middle East (1973–74)	Israel, Arab states	Israel	40:1
Lebanon (1982)	Israel, Syria	Israel	86:1[c]

Source: Joshua M. Epstein, *Measuring Military Power: The Soviet Air Threat to Europe* (Princeton University Press, 1984), pp. 110–12.

[a] The term "winner" is understood to apply only to the air war in the Vietnam cases.

[b] Loser's planes lost to each one of winner's planes lost.

[c] 86 Syrian planes shot down with no Israeli losses.

neither of which would be compromised by the Soviet proposal. Even if NATO would achieve a combat exchange ratio of 2:1 (worse than its performance in Vietnam before the U.S. Navy began the high-intensity TOPGUN air-to-air combat training program), that translates into a distinct advantage, even at numerical equality in the air.[4]

Moreover, nothing in the Soviet proposal prevents NATO from improving its air defenses through increased sheltering for NATO aircraft, improvements in runway hardening and repair, improved electronic deception, higher readiness and sortie rates so fewer aircraft are sitting on the ground, and more flying and simulator hours to ensure greater combat effectiveness when aloft. Much more importantly, as for shooting down WTO air attackers, the Soviet proposal places no limit on ground-based air defense missiles of any kind—from Stinger to Patriot. Even if a convincing case could be made that CFE would nullify NATO's real operational advantage in air-to-air combat, there are other ways to shoot down a plane, none of which would be limited.

The same point applies to deep-interdiction attacks on WTO air bases. Militarily, it matters little whether a Soviet fighter-bomber is destroyed from the air while sitting on its airstrip or is blown out of the sky as it crosses into West German airspace. Moreover, even if a compelling case could be made for destroying WTO planes on their air bases, one could use conventional missiles rather than piloted aircraft for the mission.

As for follow-on-forces attack (FOFA), most of the Soviets' follow-on forces (FOFs) themselves would disappear under the prospective CFE agreement. What imperative exists for FOFA if the FOF's themselves can be negotiated away? Or, to put it differently, why should NATO invest heavily to kill Soviet ground reinforcements with aircraft when it can get a "sure kill" with a pen—at the negotiating table? The issue is not whether NATO's FOFA force will shrink in absolute terms under CFE. The issue is whether the ratio of NATO FOFA platforms to WTO FOFs themselves would be seriously compromised. That is, rather than mechanically requiring that numbers of aircraft be equalized, one might ask that an agreement not reduce the FOFA-to-FOF ratio; that is, that it satisfy the inequality,

$$\frac{\text{NATO FOFA After CFE}}{\text{WTO FOFs After CFE}} \geq \frac{\text{NATO FOFA Before CFE}}{\text{WTO FOFs Before CFE}}$$

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[4] TOPGUN was instituted during the bombing pause, 1968–70.

CHAPTER FIVE

REDUCTION AND RESTRUCTURING BEYOND CFE

BY THE DYNAMIC measures applied in the preceding chapters, the prospective CFE agreement will improve NATO's security dramatically. Even after the CFE agreement, however, Western Europe will remain by far the world's most heavily armed camp. At the same time, reciprocal fears of premeditated aggression will be at a postwar low. Political and economic pressures for reductions and restructuring beyond CFE will be correspondingly high. In the United States many will question, and justifiably, the need to continue spending roughly $300 billion a year on defense after the principal threat to America's main security interest has been reduced asymmetrically by over 40 percent, as it would be under CFE. The brute fact is that CFE alone will not save much money in the United States.[1] If there are reductions beyond CFE that save money without degrading stability, they should be pursued.

Equal Reductions in the ATTU

The CFE agreement produces a condition of premobilization numerical equality in the ATTU for tanks, armored vehicles, and artillery. Having

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1. The CFE I reductions are estimated to produce direct savings of approximately $1.8 billion per year in 1990 dollars (in U.S. Army forces alone). This estimate is based on the U.S. Army ground unit costs given in Barry M. Blechman with the assistance of Ethan Gutmann, "A $100 Billion Understanding," in Simon Serfaty, ed., *The Future of U.S.-Soviet Relations: Twenty American Initiatives for a New Agenda* (Lanham, Md.: University Press of America, 1989), pp. 366–67, and price deflators from Office of the Assistant Secretary of Defense (Comptroller), *National Defense Budget Estimates for FY 1990/1991* (Department of Defense, March 1989),

Equivalently, this requires that

$$\frac{\text{NATO FOFA After CFE}}{\text{NATO FOFA Before CFE}} \geq \frac{\text{WTO FOFs After CFE}}{\text{WTO FOFs Before CFE}}\,.$$

The right-hand side, however, equals 21.4 ADEs After divided by 40.9 ADEs Before, which is to say that the CFE agreement cuts the WTO follow-on forces by nearly 50 percent. But not even the Soviets' *initial* position on numbers of aircraft would have required NATO to reduce its FOFA capability (the left-hand side) by this amount. The Soviets' emerging *final* position on aircraft will afford even more latitude for a reasonable bargain. Moreover, this entire point rests on acceptance of FOFA as a strategy. It is at least debatable on grounds of stability and on grounds of military cost-effectiveness.[5] After all, there are other ways and other places to destroy follow-on forces.

In summary, while the Soviets appear to be willing to compromise, Western intransigence on air power would be imprudent, given the unregulated means of accomplishing air missions and given the revolutionary impact on the crucial ground balance of the main provisions of the CFE agreement.

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[5] See Joshua M. Epstein, *The 1987 Defense Budget* (Brookings, 1986), pp. 39–41.

attained this numerical equality, the two alliances might proceed with a further equal reduction in the ATTU region. What would be the effect of a CFE II agreement under which both sides reduce weapon systems in the ATTU to a common ceiling 50 percent below the level under CFE I? Figure 5-1 projects the WTO-to-NATO force ratio, in ADEs, over the course of mobilization under such a CFE II.

The CFE II reductions, of course, would magnify the asymmetrical effect of the CFE agreement, producing a force ratio curve even more favorable to NATO. This is because the same U.S. reinforcement from the continental United States—that is, from outside the ATTU—looms ever larger proportionally as the numerically equal forces (tanks, artillery, and armored vehicles) within the ATTU are reduced.

The dynamic effect, in turn, is quite predictable. The reduction improves the simulated outcomes. Figures 5-2 and 5-3 chart the results, in attrition and movement terms, in the most demanding scenario, the multisectoral feint attack with imperfect NATO dexterity: the corps sector V front is effectively stationary and NATO's margin of victory is improved over CFE I.[2]

Unilateral U.S. Reductions beyond CFE II

Indeed, if this CFE II agreement were in force, the United States could unilaterally eliminate the 3 National Guard divisions, 1 independent armored brigade, and 15 independent artillery battalions listed in table 5-1 and still do as well as under CFE I in the most demanding scenarios—the 60:40 versus 40:60 misallocation in scenario IV and the multisectoral feint attack with imperfect NATO dexterity.[3] These unilateral reductions would be taken from the end of the U.S. reinforcement schedule; they are the last units to arrive at the front. The reductions were derived iteratively, by cutting slightly from the reinforcement list, checking the resulting dynamic outcomes, and then cutting some more until the—quite

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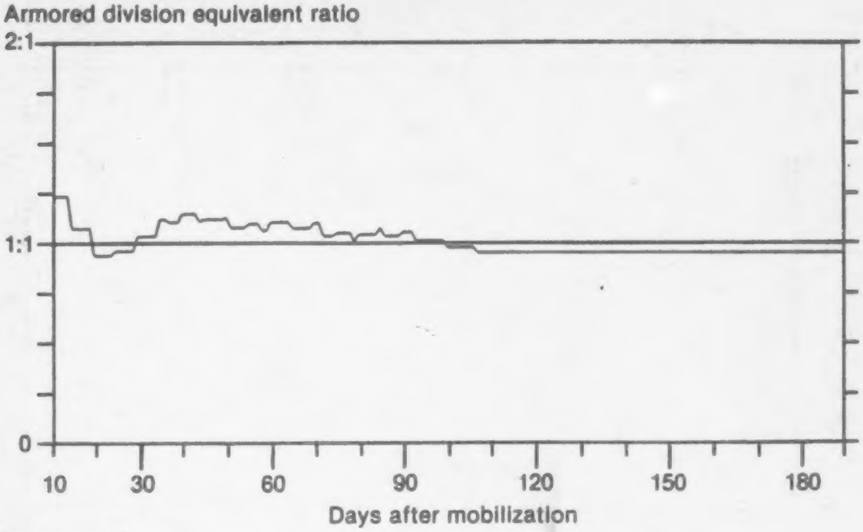
p. 50. Including air power, the Congressional Budget Office estimates the direct savings at slightly over $2 billion a year in 1990 dollars. CBO, "Budgetary Effects of the President's Conventional Arms Proposal," Staff Working Paper, June 1989.

[2] NATO loses 5 kilometers in this case, as against 15 kilometers in CFE I. Under CFE II, close air support is assumed to be reduced to a common ceiling 50 percent below the ceiling assumed under CFE I.

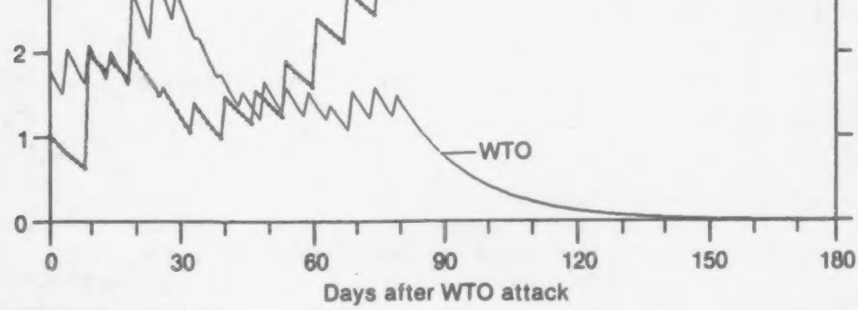
[3] When I say that NATO does "as well as under CFE I," I mean that NATO does no worse in terms of movement of the front and still wins the attrition war.

FIGURE 5-1. **Ratio of WTO to NATO during Mobilization under CFE II Reductions in the ATTU to levels 50 Percent below CFE I**



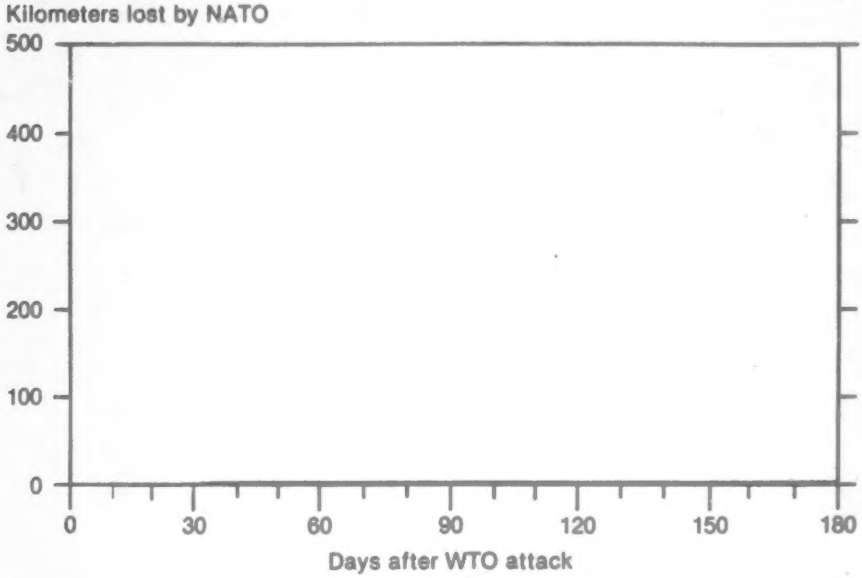
Source: appendix C.

FIGURE 5-2. **Multisectoral Feint Attack with Imperfect NATO Dexterity, Corps Sector V Attrition Assuming Reductions to levels 50 Percent below CFE I**



Sources: appendixes A, B, and C.

FIGURE 5-3. **Multisectoral Feint Attack with Imperfect NATO Dexterity, Corps Sector V Movement of the Front Assuming Reductions to Levels 50 Percent below CFE I**



Sources: appendixes A, B, and C.

satisfactory—CFE I outcomes were restored.[4] The idea was to arrive at a regime that, with respect to CFE I, could be termed the "equal risk/lower cost" regime.[5] Even further NATO cuts would be possible if one were willing to assume greater dexterity than is assumed in the test scenarios or if NATO were assumed to implement obstacle plans of the sort discussed below.

Force-to-Space Rules of Thumb

Despite NATO's *relative* growth under CFE II, *all* reductions beyond CFE I in the ATTU have been vigorously opposed in some Western

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[4] Concerning the term "restored," see preceding note.

[5] The CFE II reductions plus the unilateral reductions listed in table 5-1 are estimated to produce direct savings of approximately $16.8 billion per year in 1990 dollars (in U.S. Army forces alone). This estimate is based on the U.S. Army ground unit costs given in Blechman and Gutmann, "A $100 Billion Understanding," pp. 366–67, and price deflators from Office

TABLE 5-1. **National Guard Units to Eliminate after CFE II**

Units	ADEs
Divisions	
50th armored	.91
49th armored	.91
42nd infantry (2 brigades)	.63
Independent brigades	
31st armored	.26
Independent artillery battalions	
113th	.04
115th	.04
118th	.04
135th	.04
138th	.04
142d	.04
196th	.04
197th	.04
209th	.04
147th	.04
151st	.04
169th	.04
227th	.04
163d	.04
631st	.04
Total	3.35

Source: Units removed from the reinforcement schedule given in appendix C. Sum of rounded entries may not agree with total, which is the rounded sum of unrounded entries.

military and academic circles based on so-called force-to-space rules of thumb.[6] Two assumptions underlie this position. The first assumption is that there is some *absolute* minimum number of defensive ground forces per kilometer, a minimum ground-unit density, that is necessary for suc-

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of the Assistant Secretary of Defense (Comptroller), *National Defense Budget Estimates for FY1990/1991*, p. 50. Using this method, the savings from CFE I were estimated at $1.8 billion per year (see chap. 5, note 1 above). At $16.8 billion per year, the net saving of CFE II plus the unilateral cuts in table 5-1 is thus $15 billion per year. If air power is included in CFE II, further direct savings would accrue. See CBO, *Budgetary and Military Effects of a Treaty Limiting Conventional Forces in Europe* (January 1990).

[6] See, for example, John J. Mearsheimer, "Numbers, Strategy, and the European Balance," *International Security*, vol. 12 (Spring 1988), pp. 184–85. Some who previously opposed deep cuts on force-to-space grounds may have abandoned their opposition in light of recent political developments in Eastern Europe. I cannot say; and it is irrelevant. My argument here is methodological and concerns the *analytical merit* of long-standing force-to-space rules of thumb as such, rules which endure as conventional wisdom and which may yet loom large in future European and non-European contexts.

cessful defense, and that this minimum cannot be violated no matter what. The second assumption is that reductions beyond CFE would push NATO below this absolute minimum. Statements of the rule vary, but they seem to cluster around a value of one division per 25 kilometers of front.[7] Sometimes one "equivalent division" per 25 kilometers, or other standardized division, is employed. For explanatory purposes, it matters little which version is adopted.

In fact, a host of unsupported assumptions—about queuing, about dexterity, and about combat dynamics—are implicit in these rules of thumb. An attempt to formalize the conventional wisdom will demonstrate what some of those assumptions are and how little analytical support there is for the force-to-space objections to arms control. (None of this discussion denies the obvious point that there are physical limits on the number of vehicles that can be crammed into a given sector of front. The discussion concerns minimum defensive *requirements*, not maximum physical constraints.)

First, it is absurd to speak of defensive force-to-space requirements independent of an adversary; ultimately, it is force-to-force relationships that matter. While most would concede this point, few pursue it. Let us pursue it. Suppose that in an initial round of asymmetrical cuts, NATO and the WTO had both reduced forces to the canonical "defensive minimum" density of one division per 25 kilometers. Is there *no* further WTO reduction that would permit NATO to go lower safely, say to one division per 30 kilometers? Surely if the WTO went to zero divisions, NATO could safely reduce. What if the WTO went to 10 or 15 divisions total? It is incumbent on those who reject *equal* reductions below the canonical minimum to specify the *unequal* reductions that would permit NATO to go safely below those densities. Implicitly, there must be acceptable, even if highly asymmetrical, terms of trade. For the sake of illustration, for instance, for NATO to reduce from 1 division per 25 kilometers to 0.75 divisions per 25 kilometers, one might require that the WTO reduce from 1 division per 25 kilometers to 0.50 divisions per 25 kilometers. The first point, in any case, is that *force-to-space requirements are not adversary-*

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[7] See for example, Stephen J. Flanagan and Andrew Hamilton, "Arms Control and Stability in Europe: Reductions Are Not Enough," *Survival*, vol. 30 (September–October 1988), p. 463, note 20; and James A. Thomson and Nanette C. Gantz, *Conventional Arms Control Revisited: Objectives in the New Phase*, N-2697-AF (Santa Monica, Calif.: Rand Corp., December 1987), p. 12. For variants, see John J. Mearsheimer, "Why the Soviets Can't Win Quickly in Central

independent; ceteris paribus, there are, in principle acceptable terms of trade.

A second point is also often neglected and deserves analysis. Those who posit inviolable density "floors" for the defense never seem to mention analogous floors for the attacker. Let us grant for the moment that as the defense thins out, the attacker can more easily penetrate locally. Pursuing this logic, if, over the entire central region, both sides were reduced to a single division, a penetration would be virtually assured! But, of course, with a single division, the penetration could not be exploited to any lasting effect; *no consolidation of military control would be possible* over any appreciable area. If one is to posit defensive force-to-space "minima," then one should also posit offensive minima—densities below which no penetration (however easy) is worth its salt. Once the attacker is below those minimum consolidation densities, equal reductions are once again acceptable to the defense.

Simply for heuristic purposes, imagine that this "consolidation minimum" is reached when forces fall to an average density of 1 division per 100 kilometers—or 0.25 divisions per 25 kilometers. This line of reasoning suggests a *curve of acceptability*, sketched in figure 5-4. Problems begin when NATO falls to (suspending disbelief) 1 division per 25 kilometers. If NATO is to reduce further, to say 0.75 divisions per 25 kilometers, it requires that the WTO fall by more, say to 0.50 divisions per 25 kilometers; *a given NATO cut requires a larger WTO cut in this region* (see arrows). The terms of trade are harsher for the WTO the larger (in absolute terms) its forces, since a penetration has worse consequences for NATO the more assuredly the WTO can consolidate gains. However, as the WTO falls toward its minimum consolidation level (illustratively set at 0.25 divisions per 25 kilometers), the terms of trade ease; indeed, below that WTO density, equality—or, in principle, less than equality—suffices for NATO, as shown. Assuming for the moment that negotiated reductions would, beyond some phase, force both sides to move on the equality curve (E), the question for the defense would be whether the gap between the acceptability curve (A) and the equality curve (E) could be filled by means not constrained by agreement, for instance, by increasing

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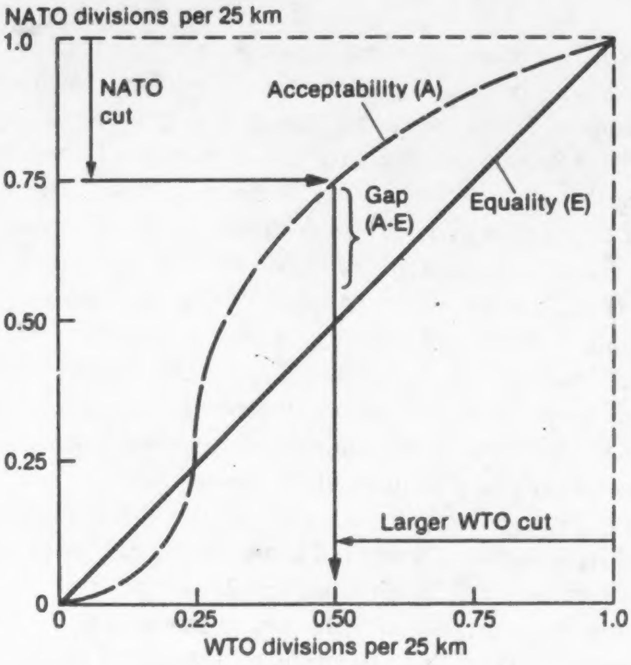
Europe," *International Security*, vol. 7 (Summer 1982), pp. 24, 25, 27; and Barry R. Posen, "Measuring the European Conventional Balance: Coping with Complexity in Threat Assessment," *International Security*, vol. 9 (Winter 1984–85), pp. 74–78.

FIGURE 5-4. **The Curve of Acceptability**



use of long-range delivery systems, mines, rapidly emplaceable obstacles, and preparation of terrain.

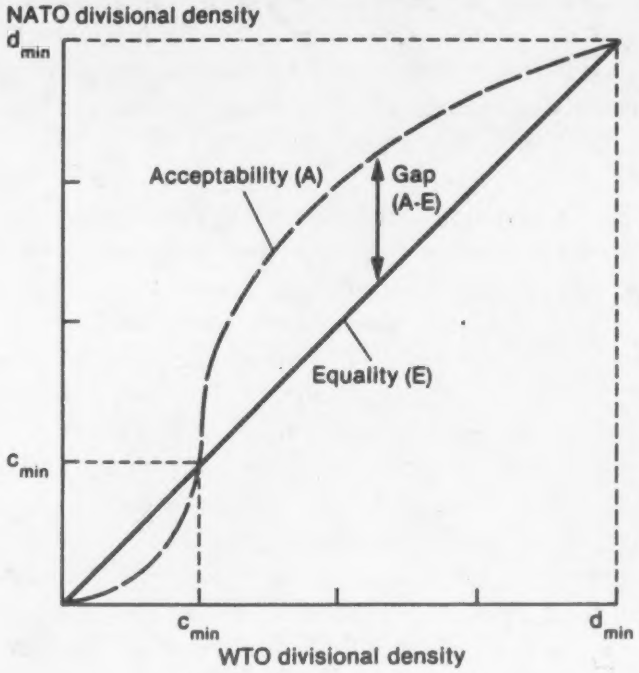
It will prove useful to generalize slightly. Rather than pick a particular number as the defensive minimum, let us call the value d_{min}. Obviously, NATO's d_{min} could differ from the WTO's due to various factors, but let us use d_{min} for both sides for expository purposes. And, instead of positing some specific minimum consolidation level, let us likewise assume a common value c_{min}. Then the picture is as shown in figure 5-5. In terms of this commonsensical formulation, the force-to-space objection to reductions beyond CFE embodies three claims:

—Further reductions would depress NATO to below d_{min}, while leaving the WTO level well above c_{min};

—Since negotiated reductions are *equal*, NATO will be bound politically to the equality (E) curve, where it will fall significantly short of militarily acceptable levels (the A curve) in divisions; and

—There is no way to bridge the gap between A and E within the terms of a post-CFE agreement.

FIGURE 5-5. The Curve of Acceptability Generalized



The force-to-space opponents of deeper reductions have not begun to make a convincing case that even one of these claims is true. Moreover, for deeper cuts to make sense, *only one* of the claims must be false.

First, regarding $d_{\min}$, the "forward density," or actual ratio of force to space one computes for NATO, depends on the scenario: the density would be different after 90 days of mobilization than after 5 days. It also depends on how much of NATO's front—how much "space"—is included in the computation; can the Harz Mountains be partially subtracted, for instance? Finally, the forward density after arms control depends on the forces assumed to be affected by a treaty: the ATTU region, after all, encompasses many forces with little bearing on *forward* densities, such as Turkish, Spanish, and Soviet Central Reserve divisions. Those who hold that NATO's densities "would be inadequate" should set forth clearly what they think NATO's density "would be" and *how they calculate it*.

Suppose that were done and that, for the scenarios and forces of interest, the calculated force density along the front was less than 1 division per

25 kilometers. Does that put NATO below $d_{\min}$? Certainly, the available data does not endow any particular density with much significance. The U.S. Army Concepts Analysis Agency (CAA) has recently published data from 189 battles from 1939 to 1982.[8] These data "display extreme variability inconsistent with the notion of a 'magic' density necessary for (or even associated with) stalemate."[9] See table 5-2.

Assertions that $d_{\min}$ equals 1 division (or 1 "equivalent division," or 1 ADE) per 25 kilometers are suspect as generalizations. None of this proves that for a *next* war in Europe there is no rule of thumb worth observing. What it suggests, however, is that any such guideline will have to be arrived at analytically, "from the ground up," as it were. Conceptual issues, therefore, are probably more important than empirical ones at this point. Indeed, the logical starting point for this force-to-space debate would be an existence theorem: a tight argument that $d_{\min}$ *exists*.

Speaking rigorously, $d_{\min}$ is that point at which equal numerical reductions drive NATO below acceptable force levels, the point at which the A and E curves diverge. This is the point at which, with no air power and setting the two forces equal in all other respects, a given cut in NATO would call for a *larger* cut in the WTO, the point where without compensatory action an equal cut yields a gap. Now, why is there *any* point at which a militarily significant gap arises? The answer, it seems to me, is fairly complex and ultimately involves assumptions about attacker queuing, defender dexterity, and the relationships among battle *durations*, attrition *rates*, and force *ratios*.

Playing devil's advocate, the best argument I can construct for a force-to-space concern at reduced force levels runs as follows.[10] The attacker can concentrate his forces wherever he wants and can concentrate up to some maximum level before stacking up, or queuing (a point allegedly dictated by yet other rules of thumb) occurs. The defender does not know where the attacker will concentrate, and accordingly (!?) distributes his forces evenly across the front.[11] The defending force thus has the same

[8] Robert McQuie, *Historical Characteristics of Combat for Wargames (Benchmarks)*, CAA-RP-87-2 (Bethesda, Md.: U.S. Army Concepts Analysis Agency, July 1988).

[9] John Patrick Elwood, "Conventional Wisdom: Force-to-Space Considerations and Conventional Arms Control in Europe," Senior thesis, Princeton University, 1989, p. 28.

[10] I am grateful to Stephen Biddle for his help in articulating a coherent formulation of the force-to-space concern and for numerous discussions of the question.

[11] A defender might not do this. He might deploy a light screening force along the front, and withhold the bulk of his force as a mobile reserve. If so, the redeployment times (t_1 and t_2) defined below would be reinterpreted as redeployment times from reserve areas, rather than from nearby corps sectors proper.

TABLE 5-2. **Average Densities Associated with Stalemate and Withdrawal**[a]

Category	Mean[b]	Standard deviation	Median
Initial personnel ratio			
Stalemate	1.7	.6	. . .
Withdrawal	1.5	.7	. . .
Troops per kilometer			
Attacker			
Stalemate	2904.2	2975.0	2126.5
Withdrawal	3027.3	2999.8	2410.0
Defender			
Stalemate	1691.6	1706.1	1191.7
Withdrawal	1896.7	1774.3	1491.0
Tanks per kilometer			
Attacker			
Stalemate	19.6	26.3	14.4
Withdrawal	22.8	25.6	23.4
Defender			
Stalemate	10.0	12.9	6.0
Withdrawal	12.4	21.0	13.9
Artillery per kilometer			
Attacker			
Stalemate	22.6	31.6	14.7
Withdrawal	21.0	28.5	24.4
Defender			
Stalemate	14.8	18.4	9.6
Withdrawal	12.5	16.3	14.0
CAS sorties per kilometer per day			
Attacker			
Stalemate	5.9	10.0	2.0
Withdrawal	7.2	17.9	6.3
Defender			
Stalemate	3.2	8.4	0.1
Withdrawal	1.1	3.9	0.9

Source: John Patrick Elwood, "Conventional Wisdom: Force-to-Space Considerations and Conventional Arms Control in Europe," Senior thesis, Princeton University, 1989, p. 28, based on data in Robert McQuie, *Historical Characteristics of Combat for Wargames (Benchmarks)*, CAA-RP-87-2 (Bethesda, Md.: U.S. Army, Concepts Analysis Agency, July 1988).

a. Those 91 battles involving withdrawal of 0–4 kilometers were considered stalemates while those 51 involving withdrawal of 10–120 kilometers were considered withdrawal battles.

b. Mean indicates geometric mean for initial personnel ratio and arithmetic mean for all other measures. See appendix B for a discussion of the geometric mean's preferability over the arithmetic mean for samples involving ratios of this sort. All numbers have been rounded.

average density in every sector. This average obviously falls as forces are reduced equally on both sides. However, the attacker can still concentrate the maximum feasible level on any chosen sector.[12] In that sector the initial force ratio will equal ***the attacker's maximum over the defender's average***. This ratio grows and presumably gives the attacker an increasing probability of penetrating in the chosen sector as forces decline initially.

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[12] Obviously, this fails once the attacker's total force is less than the per sector maximum. For expository purposes this discussion assumes the attacker exceeds that level.

To put some analytical meat on these heuristic bones, consider a specific numerical example. Let us make the following six basic assumptions: (1) the theater has three sectors; (2) the maximum that can be packed into any sector is 100 units; (3) the defender has zero information on the attacker's point of attack, until the attack occurs. In the face of that uncertainty, (4) the defender apportions forces equally among sectors; (5) the attacker focuses all his force on one sector of his choosing (leaving all others undefended); (6) the attacker-defender casualty-exchange ratio is $\rho = 1$. Let us confine attention to ground forces only and imagine that each side has 300 units. The defense deploys forces equally among sectors at 100 units each. The attacker focuses all force on sector 1. He has 300 units; but because of the force-to-space maximum of 100 units, a queue results. The offense must engage his forces in sequence. The issue is clear, and is illustrated in figure 5-6.

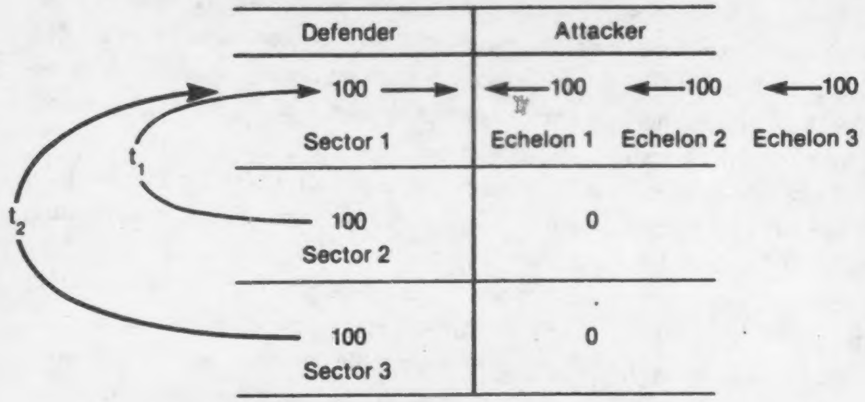
Let D_1 denote the duration of the opening battle between the attacker's first echelon of 100 units and the defender's 100 in sector 1. Let t_1 denote the time required by the defender's 100 units in sector 2 to redeploy to sector 1. Clearly, this defensive reinforcement arrives in the nick of time if $t_1 = D_1$. In that case the defender's 100 units from sector 2 arrive in time to fight the attacker's second echelon. Let the duration of that (second) battle be D_2. Pursuing the same reasoning, the defender's 100 units in sector 3 will arrive just in time to meet the attacker's third echelon if that defender force can redeploy before the second battle ends, at time $D_1 + D_2$. If t_2 is the redeployment time from sector 3, this reinforcement also arrives in the nick of time if $t_2 = D_1 + D_2$.

Retaining all six basic assumptions, a perfect stalemate results if $t_1 = D_1$ and $t_2 = D_1 + D_2$. Obviously, if $t_1 < D_1$ and $t_2 < D_1 + D_2$, the defender has time to spare, or excess dexterity. However, if $t_1 > D_1$, the defender's first reinforcement is too late; if $t_2 > D_1 + D_2$, the defender's second reinforcement is too late. For simplicity's sake, let us say that a catastrophic rupture occurs if either is too late. Hence, we have a formal catastrophe condition (C1) for world 1:

$$\text{(C1)} \qquad t_1 > D_1 \text{ or } t_2 > D_1 + D_2$$

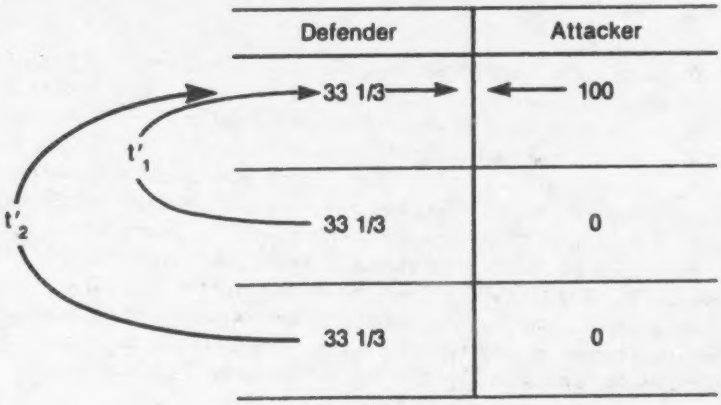
Leaving all assumptions intact, let us now move to world 2, in which forces fall equally to 100 units versus 100 units. Then the picture is given

FIGURE 5-6. **World 1: 300 Defense Units versus 300 Attack Units**


Defender
Attacker
100
100
100
100
Sector 1
Echelon 1
Echelon 2
Echelon 3
t_1
t_2
100
Sector 2
0
100
Sector 3
0

in figure 5-7. Now if the attacker concentrates all his force on sector 1, he can amass a 3:1 ratio there, whereas before, the force-to-space maximum of 100 held him to a 1:1 ratio. This is the arithmetical phenomenon of interest: the ratio of the attacker's sectoral *maximum* to the defender's sectoral *average* begins to *grow* as the defender's force falls below a

FIGURE 5-7. **World 2: 100 Defense Units versus 100 Attack Units**


Defender
Attacker
33 1/3
100
t'_1
t'_2
33 1/3
0
33 1/3
0

certain level, in this example, 300.[13] At or below 100 per side, it should be noted, the attacker cannot improve on 3:1.[14]

These, I believe, are the micromechanics people tacitly have in mind when they express a force-to-space concern over low equal levels. And there is obviously a legitimate issue here, one deserving much more research.[15] Indeed, nothing can be concluded from figures 5-6 and 5-7 alone. There are four questions outstanding.

First, under what conditions is world 2 in fact worse for the defender than world 1? Second, when is either world unacceptable, or catastrophic, to the defender? Third, is there any evidence that, if NATO did nothing to compensate, reductions beyond CFE would put it in an unacceptable position? And, finally, even on the as yet unsupported assumption that such reductions would create an unacceptable situation, couldn't restructuring be designed to provide compensatory measures, restoring the original benefit of those reductions?[16]

Now, a complete mathematical characterization of the conditions under which world 2 is worse for the defender than world 1 is complex. However, it will prove useful to specify a clearly sufficient conditon for world 2 to be worse than world 1, accepting for the moment the six basic assumptions elaborated earlier. Returning to world 2 (figure 5-7), let D_1' be the time required by the attacker to eat through the defender's 33 1/3 units in sector 1. Defense catastrophe results if this occurs before the defender's reinforcements arrive from sector 2; let t_1' denote the redeployment time required. If D_2' is the time required by the attacking force surviving the first engagement to eat through these reinforcements, then for the defender's reinforcement from sector 3 to arrive just in time, we must have $t_2' = D_1' + D_2'$. These redeployment times might be shorter than in world 1 because the defending forces are smaller and perhaps more mobile as a result. Once again, perfect stalemate occurs if $t_1' = D_1'$ and if $t_2' = D_1' + D_2'$. Likewise, catastrophe results if the attacker can burn through the immediate defense before reinforcements arrive. Hence, catastrophe occurs in world 2 if

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[13] Obviously, in the n-sector case, the number is n times the per sector maximum.

[14] Since the attacker (A) equals the defender (D), if A is less than or equal to the sectoral maximum, then concentration of all attacker forces there yields an initial attacker-defender ratio of $A/(D/n) = A/(A/n) = n$, the number of sectors.

[15] For a theoretically advanced treatment of force to space and of the optimum spatial distribution of defending forces under uniform and nonuniform probability densities for the point of attack, see Raj Gupta, "The Calculus of Conventional Force Structure: Force Optimization and Its Implications for Deep Arms Reductions," Senior thesis, Department of Electrical Engineering and The Woodrow Wilson School, Princeton University, May 1989.

[16] Assuming that reductions would create a gap and that compensation is feasible, economic efficiency would require also that the cost of compensating not exceed the savings resulting from the reductions that created the gap. This standard should not be difficult to meet, since the

(C2) $t_1' > D_1'$ or $t_2' > D_1' + D_2'$.

Still holding to the six basic assumptions (notably that $\rho = 1$), world 2 is certainly worse than world 1 if the differences between reinforcement times and battle durations are greater in world 2 than in world 1, that is, if

(C3) $(t_1' - D_1') > (t_1 - D_1)$ and $t_2' - (D_1' + D_2') > t_2 - (D_1 + D_2)$.

This follows if sector 1 battle durations fall (as force ratios grow) faster than redeployment times fall as defensive forces shrink. Implicit in judgments that world 2 is worse than world 1 are unstated hypotheses concerning the effect of force ratios on battle durations and the effect of force size on defense dexterity.[17]

Now, even if world 2 were shown to be worse than world 1 in the above comparative sense (C3), the defender might still be perfectly *adequate* in world 2, or to put it succinctly, (C3) does *not* imply (C2). At $\rho = 1$ the defense is still adequate so long as (a) the defender's first redeployment time, t_1', is less than the time, D_1', needed by the attacker to annihilate the 33 1/3 defenders initially deployed in sector 1, *and* (b) t_2' is less than the sum of D_1' and D_2' (the total time needed by the attacker to annihilate the initial defenders plus those redeployed from sector 2).

Even under all the simplifying assumptions set forth at the outset, an argument would still need to be made that world 2 is catastrophic for the defense, an *argument* involving attrition *rates* and redeployment *times* that condition $C2$ obtains.

Without even touching the six basic assumptions listed above, it should be obvious that judgments about the probability of catastrophe rest on all

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savings accruing from CFE II and the unilateral reductions of table 5-1 are substantial (see chap. 5, note 5 above), while the costs associated with the main compensatory measures (obstacle systems and terrain modification) are quite modest. For some representative costs, see Joshua M. Epstein, *The 1987 Defense Budget* (Brookings, 1986), note 30.

[17] Although no empirical or theoretical basis has yet been provided for it, even if one believes the rule of thumb that, ceteris paribus, a 3:1 ratio in some measurement units would guarantee breakthrough (however one defines that term), does it guarantee it in an hour, a day, a week, or a month? Does it happen before reinforcements arrive or not?

sorts of implicit claims about battle *durations* and attrition *rates* as functions of force *ratios* engaged and claims about dexterity—reaction and movement times (t_1 and t_2), given different intersector *distances* and relative *velocities* of attacker and defender reinforcements.[18] When one then relaxes those six basic, and *quite implausible*, simplifying assumptions, admitting that the defender's information is not zero, that the defender need not allocate equal forces to all sectors or hold zero in reserve, that the attacker might not leave entire sectors undefended from counterattack, and, most notably, that the casualty-exchange ratio need not equal 1.0 or even be a constant, matters become terribly complex.

Where is the analysis showing that, when these complex dynamics are taken into account in the current NATO context, the catastrophe condition (which should be stated clearly) is met when NATO equals 1 ADE per 25 kilometers? Nowhere. Until some analysis—a serious argument using serious numbers—is presented to that effect, there will be no analytical basis for assuming that d_{min} = 1 division per 25 kilometers or 1 ADE per 25 kilometers or any other rule of thumb.

In considering NATO specifically, moreover, there are two further factors that make the idealized example above even more farfetched. First, even after CFE II and the unilateral U.S. cuts proposed here, NATO would retain 20 ADEs at the start of mobilization. The image of a defense so thin that an attacker could simply zip through the holes unopposed is unrealistic. And, as is discussed below, defensive restructuring after CFE could make it even more unrealistic.

A second point to ponder in considering NATO specifically is this: assuming equal totals and exchange ratios of 1.0 or more, the entire force-to-space argument collapses if the defender is assumed to have adequate dexterity. By definition, the defender could counterconcentrate adequate numbers in that case. Hence, for NATO to be worse off at lower equal levels than at higher equal levels, one or both of the following conditions must hold: (1) the demand for defensive dexterity grows as equal forces decline in size; or (2) NATO's dexterity falls—the "supply" of dexterity falls—as equal forces decline in size.

The first proposition was discussed earlier and follows if, ceteris paribus, battle durations fall as force ratios rise. Even if this is true, however, the second is arguably false. Indeed, the opposite might well obtain. Small forces might well enhance dexterity. In an already densely packed ballroom, a dozen people huddling are hard to detect; yet the same dozen people huddling are set into sharp relief if the ballroom floor is nearly empty. Likewise, a concentration (the "signal") should be easier, not harder, for NATO to detect as the overall WTO theater force population (the "noise") falls. The detection (and hence decision) components of NATO's theater-level dexterity should be aided by deep reductions. Mobility might also be easier for NATO's smaller force, which could inherit a bigger logistics tail per weapon as a result of weapon cuts. In any case, nothing in the Soviet proposal constrains the acquisition of more theater surveillance or theater mobility assets. There is no reason, in short, why NATO's dexterity should fall. Indeed, it might well grow. It is important to recall that, in any event, the test scenarios used in assessing CFE II, and the unilateral reductions beyond it, already assume *poor* NATO dexterity. To the extent that defensive force-to-space requirements are surrogates for dexterity, I have already imposed serious "force-to-space penalties" on NATO in my analyses. Even on those demanding assumptions, NATO wins the attrition war without significant territorial sacrifice after CFE II and the unilateral cuts presented here.

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[18] For a more general and thorough treatment of these relationships, see Gupta, "Calculus of Conventional Force Structure."

In summary, a great deal of basic research (on the dynamics of combat and on theater-level dexterity and queuing) remains to be done before someone identifies a particular defensive force-to-space density—$d_{\min}$—below which equal reductions are prejudicial to NATO, the level where, ceteris paribus, sharply asymmetrical reductions would be required on force-to-space grounds.

Moreover, the entire discussion thus far has been cast in terms of ground units alone. Even if, in ground units, a post-CFE gap between acceptability and equality were established, there are in principle ways to bridge it.

What is "Force"?

For instance, even if deploying a division is one way to defend 25 kilometers, why assume it is the only way? What about two-thirds of a division and 500 close air support planes? Or one-third of a division, 300 close air support planes, and 10,000 rapidly scatterable mines? In principle, there is obviously a trade-off between divisions on the ground and other means of delivering fire (figure 5-8).[19] One way to bridge the alleged

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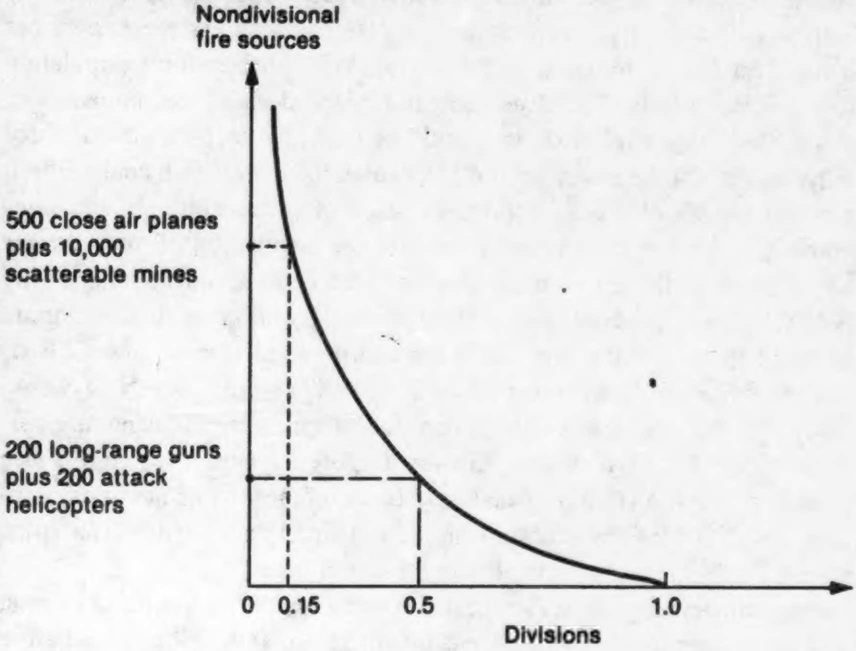
[19] On the distinction between firing platforms (inputs) and delivered fire (output) in this context, see Joshua M. Epstein, "The 3:1 Rule, the Adaptive Dynamic Model, and the Future of Security Studies," *International Security*, vol. 13 (Spring 1989), note 84.

FIGURE 5-8. **Illustrative Alternative Means of Delivering a Given Division's Worth of Fire into a 25 Kilometer Sector of Front**



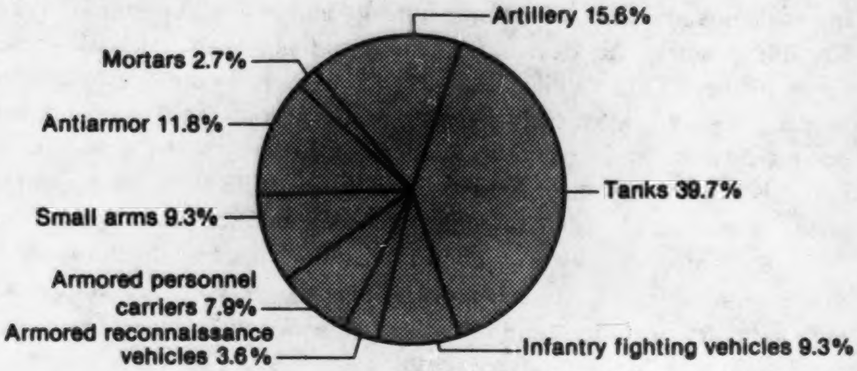
gap between equality and acceptability would be by restructuring forces, substituting nondivisional means for ground units and moving up this trade-off curve, as it were.

Restructuring

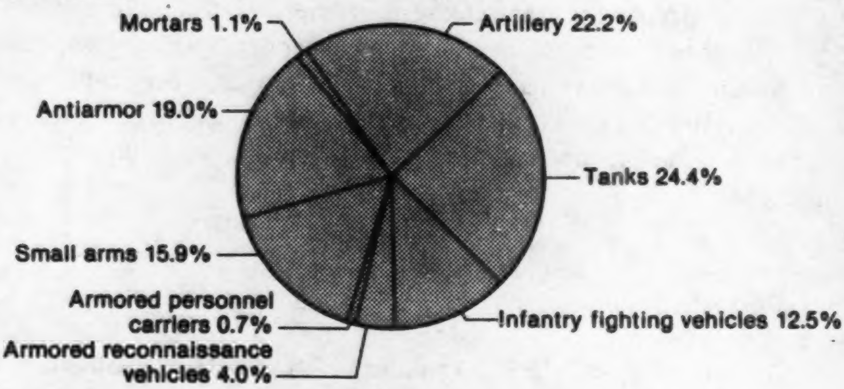
A second way of mitigating the problem of counterconcentration at low equal force levels would be to restructure forces to reduce their capacity for rapid armored penetration. To a significant extent, this would be accomplished by the deep armor (tank, armored vehicle, and artillery) reductions of CFE I and CFE II, as indicated by the pie charts shown in figure 5-9. The tank-heaviness of WTO forces (the percent of total ADE score attributable to tanks) would decrease from nearly 40 percent before CFE to 21 percent after CFE II. The Soviets claim to have further substantial plans along these lines. Measures that would be consistent with the defensive restructuring of divisions would include the substitution of air defense and antitank guided weaponry for remaining tanks and other armored fighting vehicles, the withdrawal of forward ammunition stocks,

FIGURE 5-9. **WTO Force Composition on Central Front under Alternative Reductions**

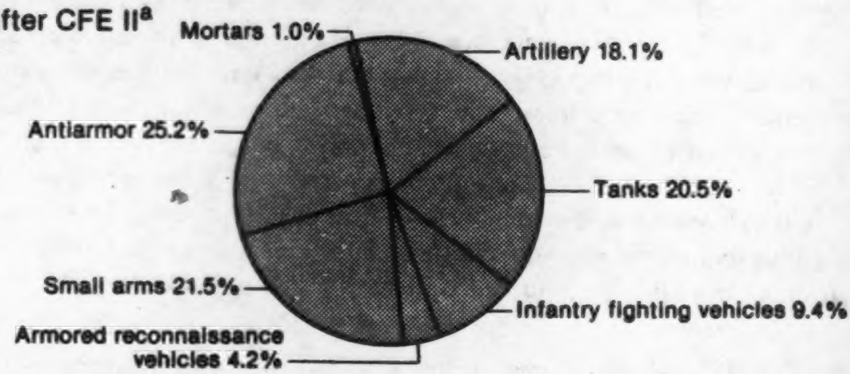
Before CFE I



After CFE I



After CFE II[a]



[a] Previous reductions have eliminated armored personnel carriers.

and the elimination of assault-bridging and mine-clearing capabilities, for example.

Further limits on the geographical distribution of forces—zonal constraints—might be pursued in (or after) CFE. Through its sublimits on forces deployed outside of national territory and on forces permissible for any one country, the CFE agreement would implicitly establish crude zones in the ATTU. While these affect proximity to the West German border, they impose no further limit on the distribution of forces up and down the front. And yet, the discussions of dexterity above demonstrate that this north-south dimension is every bit as critical as the east-west one. The attacker's capacity to rapidly concentrate forces undetected could be severely hampered by arms control provisions limiting the north-south distribution of forces. If such zonal schemes were bolstered with strict exit and entry provisions and monitoring, they would provide nearly unambiguous warning in the worst case.

Finally, NATO can restructure its own force in a way that results in higher-confidence forward defense if deterrence fails and in greater stability in crisis. A defense distributed in greater depth with greater reliance on forward obstacle systems would advance both ends even if the Soviets did not restructure defensively themselves. If both sides restructured along such lines, the likelihood of crises escalating to war would be even further reduced.

Obstacle Systems

As defined by the U.S. Army, an obstacle is "any obstruction that stops, delays, diverts, or restricts movement."[20] First, as a general proposition, NATO could undertake a concerted program of terrain enhancement. Simple, inexpensive, and unobtrusive alterations can turn existing terrain features and transportation infrastructure into significant obstacles to armored advance. For instance, one way to bolster the obstructing effect of canals is to build "a reinforced concrete step at the top of the slope out of the water on the friendly side of the canal." According to the army, this would "prevent any Warsaw Pact bridging equipment from articulating from the water surface to the top of the step and deny exit from a float bridge or raft."[21] Tank steps on the friendly sides of levees, streams, and rivers would present barriers to snorkeling or fording armored vehicles.[22] Such unilateral measures would reinforce limits on assault bridging equipment itself.

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[20] Lyle G. Suprise and others, *Peacetime Defensive Preparations in Europe*, R-82-3 (U.S. Army Engineer Studies Center, March 1982), p. D-2.

Roads and rail lines running north-south could be altered to obstruct east-west movement. In the army's view, their shoulders "should be modified to form a triangular tank ditch on the enemy side of the road. . . . This concept of a reinforced tank ditch could be one of the most economical and socially acceptable of any of the postulated terrain enhancements." For autobahns, concrete median strips "could be incorporated into a highway divider system and need only be 1 meter in height to have a decisive effect against armored vehicles."[23]

Other basic terrain modifications could include building earthen barriers (mogul belts), creating rock- and boulder-strewn fields in open terrain (used extensively in Korea), reinforcing existing stone fences, building cross-country terracing, converting firebreaks in forests to tank ditches, and selectively cutting timber to create log barriers. In peacetime, bridges and roads could be—and to a remarkable extent are—prechambered to accept explosives in a crisis. Their demolition in wartime could bring armored columns to a halt.

Perhaps the best of the nonlethal obstacles is instant antitank ditching. It is unobtrusive, inexpensive, safe, and highly flexible and effective. "These instant antitank ditches consist of plastic pipe buried seven feet in the ground—below every farmer's plow—and liquid explosive stored elsewhere. In a crisis the liquid explosive can be placed in the pipes in a few hours. If the crisis disappears the liquid explosive can be removed from the pipes and put back in storage. In the event of attacks, instant antitank ditches, impassable to armored vehicles, can be created as enemy tanks approach."[24]

Finally, there are obstacles that do more than delay. Mines are comparatively inexpensive and historically have proved to be effective antiarmor weapons. Minefields need *not* be emplaced in peacetime. According to the army, "it is within the range of current technology to create minefields over days or within seconds."[25] Scatterable mines can be stocked at preselected sites for emplacement on tactical warning.

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[21] Suprise and others, *Peacetime Defensive Preparations*, p. E-15.

[22] On artificial flooding, see Suprise and others, *Peacetime Defensive Preparations*, pp. E-10, E-15.

[23] Suprise and others, *Peacetime Defensive Preparations*, pp. E-16–E-17.

[24] John Tillson, "Preparing To Defend," unpublished manuscript, August 20, 1986, p. 8.

The primary function of obstacles—even minefields—is not to directly kill advancing armor but to delay or stop attacking forces, maximizing their exposure to defensive fire. As a rule, the slower a target is moving the easier it is to hit. According to army analyses, at a range of 2,000 meters, the hit probabilities of U.S. M-1 and M-60A3 tanks against reference targets improve from 0.22 to 0.54 when target velocities fall from 10 kilometers per hour to 2 kilometers per hour.[26] Obstacles, therefore, can increase the effectiveness of defensive ground fire dramatically. The same applies to the defender's close air support effectiveness.

While maximizing the attacker's exposure to defensive fire, an optimal defense will also minimize the defender's exposure to the attacker's fire. Although the obstacle system must be covered by fire, the defender's antitank missile and armor positions can be carefully dug in, well concealed, lightly fortified, and connected to alternative positions by sunken roads.[27] None of this would look at all like the Maginot Line.

In 1975 the army analyzed the effect of obstacles and prepared positions on exchange ratios—attackers killed per defender killed—for various types of direct-fire weapons over a range of force ratios. The obstacle produces three changes in the tactical situation: "first, assuming defender observation of the obstacle, the attacker's arrival there will assure a positive detection; second, the attacker's movement is halted for the specific period of time it requires to breach the obstacle; and, third, keeping the attacker stationary at the obstacle accrues a higher kill probability (P_k) to defender weapons than would apply if the attacker were a moving target."[28] In addition to a base case (no obstacles) and an obstacle case, the army considered a combined case in which, in addition to having obstacles, defenders operated from protected positions. While obstacles increase the attacker's exposure and raise the defender's P_k, the protected positions

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25. Gerald E. Cooper, *Battlefield Obstacles—An Appraisal of the State of the Art in Measuring Obstacle Effectiveness* (Engineer Studies Group, Department of the Army, distributed by Defense Technical Information Center, Defense Logistics Agency, September 1976), p. 45.

26. Suprise and others, *Peacetime Defensive Preparations*, p. D-11.

27. Office of the Assistant Secretary of Defense for Program Analysis and Evaluation, "NATO Center Region Military Balance Study 1978–1984," Department of Defense, July 13, 1979, p. I-51.

28. Engineer Studies Group, Department of the Army, *Measuring Obstacle Effectiveness: A Fresh Perspective*, vol. 1 (Fort Belvoir, Va., March 1975), p. 7.

TABLE 5-3. **Effect of Obstacles and Prepared Positions on Exchange Ratios**

Weapon	Exchange ratio	Improvement over base case (percent)
Force ratio 1:1[a]		
M60A1 tank		
Base case	2.6	. . .
Obstacle case	6.9	165
Combined case	17.4	569
TOW antitank missile		
Base case	20.8	. . .
Obstacle case	249.0	1,097
Combined case	499.0	2,299
Force ratio 2:1[a]		
M60A1 tank		
Base case	1.3	. . .
Obstacle case	4.1	215
Combined case	10.1	677
TOW antitank missile		
Base case	15.1	. . .
Obstacle case	163.5	983
Combined case	329.7	2,083
Force ratio 3:1[a]		
M60A1 tank		
Base case	0.9	. . .
Obstacle case	2.4	167
Combined case	6.1	578
TOW antitank missile		
Base case	8.8	. . .
Obstacle case	33.4	280
Combined case	91.1	935

Source: Engineer Studies Group, Department of the Army, *Measuring Obstacle Effectiveness: A Fresh Perspective*, vol. 1 (Fort Belvoir, Va., March 1975), p. 20. The attacker is always assumed to use T-62 medium tanks (p. 6).

a. Attackers to defenders.

reduce the defender's exposure, reducing the attacker's P_k by up to 65 percent.[29]

The effects of obstacles and prepared defensive positions on attacker-defender exchange ratios in these experiments was startling, as shown in table 5-3. At a 3:1 ratio of attackers to defenders, the improvement in exchange ratio due to obstacles was 167 percent for the M60A1 tank and 280 percent for the TOW antitank guided missile. When combined with protected firing positions for the defense, the numbers rose to 578 percent

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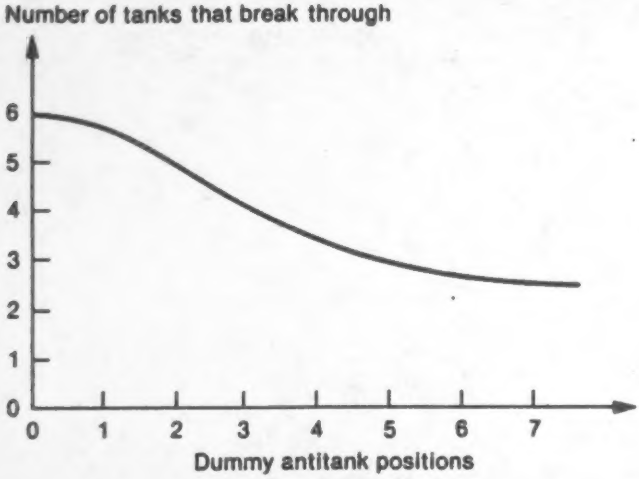
[29] Engineer Studies Group, *Measuring Obstacle Effectiveness*, p. 9.

FIGURE 5-10. The Effect of Dummy Antitank Positions on Breakthroughs



Source: P. N. Tkachenko, "Matematicheskie Modeli Boevykh Destvii," Sovetskoe Radio (Moscow 1969), reproduced in H. F. Stoeckli, *Soviet Tactical Planning: Overcoming Anti-Tank Defences* (Sandhurst, England: Soviet Studies Research Center, January 1986), p. 27.

and 935 percent, respectively.[30] A host of other army studies supports the general proposition that obstacles and prepared positions have a sharp beneficial effect on exchange ratios. For instance, one study found that "prepared positions for the defending force allowed the U.S. forces to increase the vehicle loss exchange ratio by 140 percent."[31]

Dummy defensive positions and other simple modes of deception can enhance the effect of prepared defenses. Interestingly, Soviet models suggest that the number of tanks able to penetrate a given antitank defense falls as the number of dummy antitank positions increases (figure 5-10).

By squandering fire on dummy defenses, the attacker reduces his firing efficiency (actual defenses engaged per time period) while increasing his exposure to defensive fire. Fake muzzle flashes from the defensive zone can further confound an attacker. Even dummy minefields have been employed successfully.[32] As one U.S. Army study put it, "surprise may also be achieved by making every location look like a real minefield whether it is or not." The issue of surprise is important because prepared defenses are portrayed in drab terms. The army study continues, "Not too long ago obstacle-related combat implied unsurprising, undistinguishable barriers to most people. Obviously, it need not and probably should not. People should get used to thinking about obstacles and surprise at the same time."[33] An obstacle system can desynchronize an attack, throw a wrench into its gears, and present it with sudden uncertainties. In the Soviet case, where flexibility, initiative, and innovation appear to be scarce, a forced breakdown of, or departure from, the plan could be highly disruptive.

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[30] These runs assumed a single defender at the obstacle. With multiple defenders, the improvements increased further, almost doubling. Engineer Studies Group, *Measuring Obstacle Effectiveness*, p. 32.

[31] Eugene Ehrlich and G. Leslie Geiger, *Survivability—The Effort and the Payoff* (Engineer Studies Center, Department of the Army, distributed by Defense Technical Information Center, Defense Logistics Agency, June 1981), pp. 21–22. See also, Boyd A. Jones, *The Influence of Obstacles on Anti-Armor Weapon System Effectiveness* (Carlisle Barracks, Pa.: U.S. Army War College, 1983), p. 21.

Attack Clarification

Regarding the critical issue of counterconcentration and theater-level dexterity, the main benefit of a defense prepared in depth would be informational. By "filtering out" the feints from the true main axes of attack, a forward zone of prepared defenses reduces the defender's uncertainty about the attacker's true concentration points. NATO commanders could, in consequence, "allocate little or none of their mobile reserves and airpower to the sectors where enemy penetration of the zone is shallow. Instead, they can husband these resources for application almost solely to the sectors of main attack, where they will be needed by NATO's hard-pressed ground defenders."[34]

William Kaufmann has eloquently described the obstacle system's informational benefits and the way in which these could permit NATO to counterconcentrate more efficiently.

> With perfect information and a frictionless response to the Pact concentrations, the NATO commander could deal with this tactic as

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[32] "This point is driven home by an example of a small action in Tunisia in early 1943. Four German tanks stopped at the wire marking a dummy minefield and all four were destroyed. 'They had taken the wire at its face value and had become sitting shots for antitank guns waiting for them.'" Howard E. Boone, "The Feasibility of Estimating the Contribution of Artificial Obstacles to Force Performance," Thesis, Army Command and General Staff College, Ft. Leavenworth, Kans., 1975, p. 22.

[33] Cooper, *Battlefield Obstacles*, p. 45.

[34] Malcolm Hoag, *Strengthening NATO Capabilities: A "Hi-Lo" Ground Force Mix for Area Defense*, R-2039-AF (Santa Monica, Calif.: Rand Corp., 1977), p. vii.

> readily as with a steamroller assault undertaken uniformly all along the front. But conditions of perfect information and absence of friction are rarely met. Barriers could help to deal with these dangers in two ways—by compelling the attacker to concentrate his forces even more heavily if he is to achieve his breakthrough within a short time, and by permitting the defender to man the front more lightly and hold a larger proportion of his mobile forces in reserve. Barriers thus would ease the defending commander's uncertainty and facilitate his decision to reallocate his units and commit the reserve forces at his disposal.[35]

Of course, the combination of attack clarification and delay produces the opportunity for efficient air attacks on whatever queues are produced by obstacles.[36] The shallow cross-corps sector application of long-range attack systems could also make sense under these circumstances.

Test

Numerous specific architectures for a defense in depth have been proposed. They have in common a forward zone of densely obstacled and enhanced terrain inlaid with a connected system of prepared defensive positions, or strongpoints. A certain amount of the defender's armor is held in reserve as a *masse de maneuvre* designed to contain penetrations and counterattack to regain lost territory. In his impressive study, Malcolm Hoag proposed a 30-kilometer-deep checkerboard of 1,260 strongpoints manned primarily by militia, with up to a half of NATO's tank-heavy armored force held in reserve as a *masse de maneuvre*.[37] John Tillson has outlined other proposals, as have a number of Europeans.[38]

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[35] William W. Kaufmann, "Nonnuclear Deterrence," in John D. Steinbruner and Leon V. Sigal, eds., *Alliance Security: NATO and the No-First-Use Question* (Brookings, 1983), p. 68.

[36] According to a recently declassified Pentagon analysis, the delay could be substantial. See "NATO Center Region Military Balance Study, 1978–84," table I-29 and p. I-51. See also Congressional Budget Office, *U.S. Ground Forces and the Conventional Balance in Europe* (June 1988), pp. 38–43.

[37] Hoag, *Strengthening NATO Capabilities*.

[38] Tillson, "Preparing To Defend." The principal Europeans are discussed in Jonathan Dean, "Alternative Defense—Answer to NATO's Post-INF Problems?" *International Affairs*, vol. 64 (Winter 1987–88), pp. 61–82.

In a discussion of this length, I cannot hope to resolve such issues as the optimal depth of the forward defensive zone or size of the mobile armored reserve. I would not recommend that maneuver forces be held west of the Weser River (an average of 60 kilometers from the front)[39] for obvious reasons (such as bridge interdiction); and a forward zone much shallower than 30 kilometers might prove too thin to impose the delay or extract the information desired from the system.

More as a call for further research than as a claim to a solution, it is possible to test a generic defense using dynamic methods. Let us return to the base case in which NATO grossly misallocates after virtually full mobilization—this is the 60:40 versus 40:60 case in scenario IV. Rather than deploy all 40 percent of NATO's forces forward in the Northern Army Group (NORTHAG) zone, as was assumed before, let us distribute them in three equal layers. One-third of its ADEs would be deployed at the inter-German border, the second third at the 20 kilometer mark; and the final third at 40 kilometers. For the first layer, let the ground-to-ground casualty-exchange ratio, ρ, be 1.7:1 as in the base case. Certainly, by comparison with the army's own studies, in which obstacles raise ρ by hundreds of percent, it is not overly optimistic to raise ρ by 10 percent in the second zone (from 20 to 40 kilometers deep) and by 25 percent in the third (from 40 to 60 kilometers deep).[40] To be conservative, let us not raise NATO's close air effectiveness above the level assumed in the base case, though one could argue that it should be raised as well.

How does this hypothetical defense perform in the misallocated (60:40 versus 40:60) case that proved so catastrophic to NATO, even after the WTO's unilateral cuts? The results are given in figures 5-11 and 5-12. In sharp contrast to the no-barrier base case in which NATO was crushed and lost 500 kilometers, here NATO comes from behind to win the attrition war and loses 42 kilometers. Isn't this defense in depth a *better forward defense* in fact? Yes.

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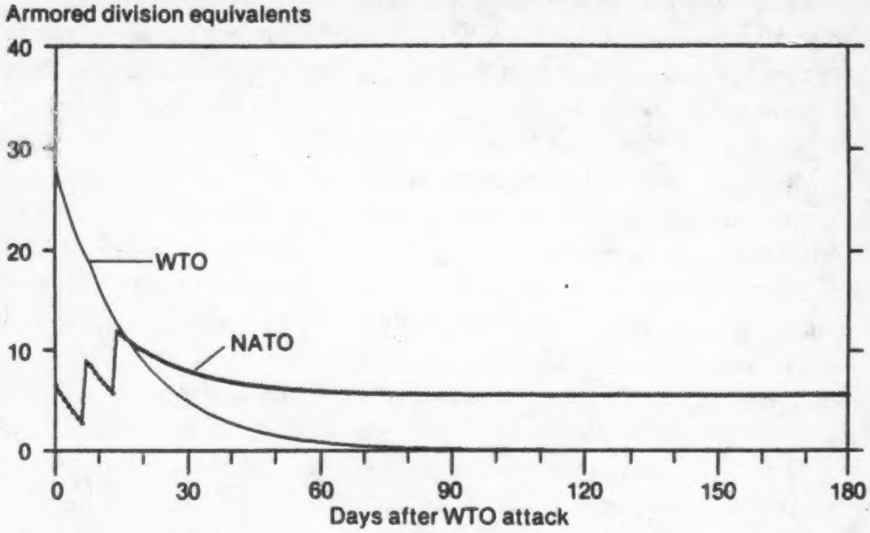
[39] See "NATO Center Region Military Balance Study, 1978–1984," table I-2.

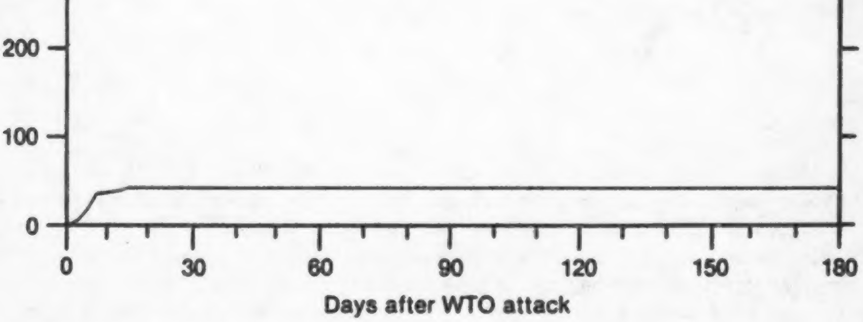
[40] The casualty-exchange ratio is assumed to grow as the attacker progresses from zone to zone because the defenders arrayed in successive zones have progressively more time to prepare their positions, greater familiarity with the terrain, and intelligence gained from the attacker's engagements in the preceding zone. Unlike the defender's, moreover, the attacker's lines of communication and his flanks are progressively more extended and vulnerable the more deeply he presses through the sequence of prepared zones.

FIGURE 5-11. **Scenario IV, Initial 60:40 versus 40:60 NATO Misallocation, Attrition in North with Barrier System and Distributed Defense**



Sources: appendixes A, B, and C.

FIGURE 5-12. **Scenario IV, Initial 60:40 versus 40:60 NATO Misallocation, Movement of the Front with Barrier System and Distributed Defense**



Sources: appendixes A, B, and C.

From Forward Deployment to Forward Defense

The goal of forward defense is to minimize territory lost. It is not at all clear, and has never been clear, that the goal of forward *defense* is best served by forward *deployment*. Indeed, by locking forces forward early, NATO is *more* vulnerable to feints and penetrations than under deeper, barrier-bolstered, distributed defensive configurations.[41] Moving toward such architectures is *not* a departure from forward *defense*—only from forward *deployment*. Indeed, forward *defense* could be strengthened by such innovations, and so could stability, since more force would be held in reserve rather than poised forward as if to attack.[42]

Soviet Perceptions

Deterrence and stability obviously depend on perceptions of the conventional balance. From what we know of their views, the Soviet military has immense respect for barriers. First, barriers were crucial to the Soviets' own July 1943 success in the Battle of Kursk, the turning point of the war on the eastern front and a battle that looms large in current Soviet discussions of stability in Europe. "The Soviets built one of the most elaborate systems of field fortifications around Kursk."[43] It is no overstatement to say that "This system determined the outcome of the battle. Despite their superiority along the axes of main effort, the Germans could not break through these powerful and deeply echeloned Soviet defenses. Counter attacked by strong Soviet reserves in the depth of the fortified area, the Germans were forced to withdraw."[44] The Soviets have also observed the effectiveness of prepared defenses in the Middle East. Regarding the October 1973 war, "the fortifications and obstacles on the Golan Heights helped to dilute the effects of the Syrian surprise attack and were the principal reason the Syrians were unable to penetrate into Galilee."[45]

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[41] On optimal configurations under various assumptions, see Gupta, "Calculus of Conventional Force Structure."

[42] This discussion is not meant either (a) to imply that NATO's current defense plans afford it no depth whatsoever or (b) to endorse any particular version of mobile defense or "alternative defense." Rather, it is intended to demonstrate rigorously that, on defensible assumptions about casualty-exchange ratios, a layered defense can sacrifice *less* ground than one in which the same defensive force is deployed as far forward as possible. While NATO's current posture is not literally of the latter kind, it is closer to it than to the layered idea.

[43] The system "included nearly 6,000 kilometers of trenches, strongpoints, 1 million mines, antitank ditches, and wire and other obstacles. The Germans could not break through and were forced by counterattack to withdraw." Ehrlich and Geiger, *Survivability—The Effort and the Payoff*, p. 7.

[44] Trevor N. Dupuy and others, *The Value of Field Fortifications in Modern Warfare*, vol. 1, DNA-5054F-1 (Dunn Loring, Va.: Historical Evaluation and Research Organization, 1979), p. 14.

Some NATO military factions might resist increased reliance on obstacle systems because, while slowing an attack, they could also limit the defender's maneuverability. This argument has tragic precedents. Speaking of the fall of France, Liddell Hart wrote that "there had also been ample time beforehand to block the German approach routes with mines, or even by the simple device of felling the trees along the forest roads through the Ardennes to the Meuse—a proposal that was urged on the French High Command but rejected on the ground of keeping the routes clear for their own cavalry's advance!"[46] Malcolm Hoag asks, "as one pertinent example of overvaluing one's own full capability to maneuver, what can match the spectacle of the German parade to the defeat of France in World War II, headlights visible all the way from Cologne to the Meuse, with nothing put in their path from either the air or the ground?"[47]

Moreover, it is not necessarily true that obstacles limit maneuver. Both Rommel and Montgomery made extensive use of obstacles in their North African war of mobility.[48] Indeed, obstacles can produce economy of force, freeing units for mobile action that would otherwise be fixed guarding unprepared terrain. "In the Battle of the Bulge, the hasty defenses, blocks, and minefields installed along the entire front of the [U.S.] 4th division beginning on 17 December facilitated the use of Economy of Force along the southern four-fifths of the Division Sector, and the massing of about half the division in about one-fifth of the sector, opposite the only serious German threat." Related to the issue of dexterity, "the key factor is the capability of the defender to allocate his forces to meet a developing situation at the critical points. To support that allocation other areas must be defended by reduced elements (economy of force) or the attacker must be significantly delayed."[49] Obstacle systems help in both respects.

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[45] Dupuy and others, *Value of Field Fortifications in Modern Warfare*, vol. 1, p. 17.

[46] B. H. Liddell Hart, *Deterrent or Defense* (Praeger, 1960), p. 104.

[47] Hoag, *Strengthening NATO Capabilities*, p. 66.

[48] Montgomery exploited natural obstacles, ensuring that false maps fell into Rommel's hands, leading the latter into areas of soft ground bad for armor.

[49] Boone, "Feasibility of Estimating the Contribution of Artificial Obstacles to Force Performance," pp. 18–19.

This, it is worth noting, was France's greatest blunder. The French deployed a third of their army *behind* the Maginot Line, which was never breached, when the entire point of the Line was to free ground units for action in other areas such as the Ardennes.

Now, in fact, NATO militaries by and large do not evidence strong resistance to barriers, which it must be stressed would bear no resemblance to the Maginot Line in any case. The U.S. Army refers to "stockpiles containing several hundred thousand mines and tens of thousands of tons of other barrier materials. In addition, U.S. Army Europe plans for the use of a significant portion of the deployed force to execute extensive barrier plans in the event of a Warsaw Pact attack on NATO forces in Central Europe."[50] The NATO militaries, moreover, are signatories to the secret 1979 Central Region Barrier Agreement, which presumably mandates preparations of the sort just alluded to, preparations mentioned in other Pentagon documents declassified since that time.[51]

Europeans and Depth

As I argued earlier, an obstacle-bolstered distributed defense in greater depth would provide higher confidence of forward *defense* than NATO's current doctrine of forward *deployment*. In minimizing the probability of a catastrophic penetration and massive territorial loss, the essential problem is to have adequate forces in the right places at the right times; counterconcentration or dexterity is the main issue. Forward *deployment*—by locking units forward into inactive or feint sectors—can exacerbate the problem by requiring complex disengagements and lateral redeployments that might be avoided if thinner forces were deployed forward in an obstacle system (affording them higher exchange ratios by all accounts) and main maneuver forces were held in operational reserve. The likelihood that deep penetrations would occur, or that any ground would be permanently lost, would actually fall, and with it, the attractiveness of attack in the first place.

[50] Boone, "Feasibility of Estimating the Contribution of Artificial Obstacles to Force Performance," p. 1.

[51] While the agreement is classified, its existence is not. The full citation is North Atlantic Treaty Organization, Allied Forces, Central Europe, *Central Region Barrier Agreement (CRBA) (U)*, Brunsuum, Netherlands, August 31, 1979 (NATO-Secret), and is given in Suprise and others, *Peacetime Defense Preparations*, p. G-8.

Here too, doctrinal realities seem to be changing. In the 1988 British *Statement on the Defence Estimates* we read that

> Forward defence does not necessarily imply a static defence. . . . In order to take advantage of force improvements, such as recent developments in anti-armour capability, Northern Army Group (NORTHAG) has adopted a more mobile operational concept that acknowledges the possibility of initially having to yield ground. Reconnaissance forces would identify the main axes of attack and a quick reacting covering force would, if necessary, delay the enemy to allow the main forces to prepare defensive positions. Ground defence forces, supported by air forces, would then exploit obstacles and minefield barriers to break up and reduce invading forces, while mobile reserves (including air-mobile forces) would attack the flanks and the rear of enemy spearheads.[52]

While the military operational details of "alternative defense" require clarification, the very fact that these concepts have a significant audience in Germany attests to the growing acceptability of defenses distributed in depth. Finally, political acceptability always depends on presentation. Obviously, if this type of defensive restructuring is presented as a Maginot Line suggesting the division of Germany, it will be politically unacceptable. If, however, it is presented as a precautionary infrastructure for a post–cold war world, a way to increase stability while reducing force levels—and hence German personnel and spending requirements—it might fare better.

Indeed, looking beyond CFE I and CFE II—indeed, looking beyond the NATO-WTO confrontation—obstacle-bolstered defenses distributed in depth might well prove to be the sinews of collective security in Europe. If all major potential adversaries were to adopt such defenses, the likelihood of crises between any two such actors escalating to war would almost surely be reduced.

Stability

Under any of the CFE agreements outlined earlier, a Soviet leader contemplating aggression against NATO would face an awesome array of deterrents: powerful conventional forces backed by thousands of theater-based (including naval) nuclear weapons, augmented by the ''strategic'' forces of Britain and France, all buttressed by the intercontinental nuclear forces of the United States. Even if, in the face of powerful evidence to the contrary, one posits a Soviet inclination to engage in it, premeditated, calculated aggression against Western Europe under these circumstances seems implausible.

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[52] *Statement on the Defence Estimate 1988*, vol. 1, presented to the British Parliament by the British Secretary of State for Defense (London, 1988), p. 16.

It seems more plausible that, if war comes, it will come out of a crisis in which the mobilization efforts of each side are read as threatening by the other, resulting in an escalation spiral in which preemption, rightly or wrongly, comes to be seen as attractive. The perception that the opponent's mobilization is offensive in cast might well generate such spirals. Accordingly, if mobilization took each military establishment into unequivocally defensive postures, the act of mobilization would be less provocative and escalatory than it might otherwise be. Of course, there is no hard and fast way to distinguish a defensive posture from an offensive one, technically. But ambiguity can be vastly reduced. A posture in which the forward and first line of defense is a system of obstacles and prepared defenses with mobile armored reserves to the rear should be less provocative—and more effective—than one in which armored forces are glowering at each other across a border.

NATO might unilaterally increase stability by moving in this direction. If the Soviets are as interested in restructuring for nonoffensive defense as they say, they can reciprocate and the world might be an even safer place. And if they do not reciprocate, NATO will, in fact, be better prepared for the worst.

CHAPTER SIX

SUMMARY AND CONCLUSIONS

The Current Balance

If one uses the extended adaptive dynamic model presented in appendix A, the performance assumptions presented and discussed in appendix B, and the mobilization assumptions given in appendix C, NATO stalemates the WTO without losing territory in all four base case scenarios, so long as a high degree of theater-level dexterity is assumed. However, if NATO's dexterity is poor and it fails to counterconcentrate efficiently, it could lose badly and quickly. That proposition is demonstrated by three test scenarios:

Test 1: Initial 60:40 versus 40:60 misallocation in scenario I (10/5).
Test 2: Initial 60:40 versus 40:60 misallocation in scenario IV (90/85).
Test 3: Misallocation under a multisectoral feint attack.

Under the current balance and the given assumptions, NATO fails each test.

The Unilateral Reductions

If the unilateral reductions announced by Gorbachev and the East Europeans were implemented as detailed in appendix C, then test 1, a surrogate for the canonical surprise attack, is passed. Leaving all other assumptions as they were in the base case, NATO wins in attrition without losing territory. Since those unilateral reductions are concentrated on the WTO units that would lead such an attack, a significant impact on the early attack (10/5) case is to be expected. NATO still fails tests 2 and 3 under the unilateral reductions.

The CFE Agreement

Implementation of the CFE agreement, as interpreted in chapter 4, would permit NATO to pass test 2 completely (NATO wins the attrition war without territorial sacrifice) and test 3 almost completely (NATO wins the attrition war but loses around 15 kilometers).

Given these sharp improvements, Western intransigence on reductions in air power seems unreasonable. As far as air defense is concerned, the prospective CFE agreement would leave NATO with an air-to-air force at least as capable as the WTO's, if reasonable credit is taken for NATO's technological and training advantages. Moreover, nothing in the CFE agreement would constrain acquisition of ground-based air defenses or passive improvements in NATO's air force survivability. As far as air-to-ground operations are concerned, NATO is concerned primarily with a degradation in its follow-on-forces attack (FOFA) capabilities. Impressive interdiction capabilities would, in fact, remain after the CFE agreement. Moreover, the case for FOFA, debatable even now, would be seriously undercut by the agreement itself, which drastically reduces the Soviets' follow-on forces.

CFE II

While improving NATO's relative military position dramatically, the CFE agreement will still leave Central Europe the most heavily armed camp in the world, and will produce negligible savings in the U.S. defense budget. As a first step beyond CFE, which equalizes forces at near NATO's levels in the ATTU, equal CFE II reductions of 50 percent should be attractive to the West. Simulated outcomes improve across the board under such an agreement.[1]

CFE II Plus Unilateral U.S. Cuts

Such reductions would confer on NATO a numerical preponderance (after mobilization) even greater than that produced by CFE I. This numerical edge is not necessary for a successful NATO defense. With CFE II in place, if the United States were to eliminate unilaterally the late-arriving reinforcements listed in table 5-1, NATO would still do as well militarily as under CFE I.

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[1] Ground lost in test 3 falls from 15 kilometers in CFE I to 5 kilometers in this case.

Sensitivity Analysis

Recognizing that warfare is an uncertain process and that key assumptions can be challenged, the entire series of simulations was done under six different assumptions concerning the ground-to-ground casualty-exchange ratio, ρ. Beyond the base case, five different constant ρ-values were examined (1.2, 1.3, 1.5, 1.85, 2.0). A nonconstant (force-ratio dependent) ρ was also tested using the extended model given in the appendix. The results are summarized in appendix D. In some cases, the absolute outcomes differ sharply from those produced by the ρ-value of 1.7 used in the base cases (the value is developed in appendix B). But, as was stressed in the introduction, the central issue is relative, not absolute. With that in mind, select any scenario. Then for any ρ-value greater than or equal to 1.3, four claims apply to the computer simulations.

—NATO is better off under the WTO's unilateral cuts than under the current balance. The image of a leaner, meaner threat is not supported by this analysis.

—NATO is better off under CFE I than under the WTO's unilateral cuts alone.

—NATO is better off under CFE II than under CFE I.

—If, with CFE II in force, the United States were to eliminate unilaterally three National Guard divisions, one independent armored brigade, and fifteen independent artillery battalions (see table 5-1) from the tail of the reinforcement list, NATO would do as well as under CFE I, and the U.S. defense burden would be lower than it is today or under CFE I. Obviously, the improvement over the current balance would still be vast.

While the main issue is relative not absolute, it is worth stating outright that the simulations offered in the text represent a conservative assessment. The conservatism and empirical plausibility of the parameter values employed is established in appendix B. Beyond these, the test scenarios themselves seem quite demanding. Some may even feel they are unduly demanding, unrealistically complimentary to the Soviets, whose simulated performance in orchestrating theater-level offensive operations (for example, in the multisectoral feint case) would rival the most virtuosic attacks in history.

Overall, it thus seems warranted to assert that the CFE II agreement followed by the U.S. reductions I suggest would not only leave NATO much *better off* than it is at present but would leave NATO very *well off* from a security standpoint, a position that could be further reinforced by nonprovocative unilateral and negotiated means.

Force-to-Space Rules of Thumb

No convincing analytical case has yet been marshalled to support the force-to-space opposition to such reductions. Moreover, even if such a case could be made, NATO could use arms control and restructuring to ameliorate the problem. In addition to boosting unilaterally its own capacity to counterconcentrate fire through improved theater surveillance, mobility, and long-range precision delivery systems, NATO could move to an obstacle-bolstered defense distributed in greater depth and, as a precondition for reductions, it could insist on a less threatening spatial distribution of WTO forces as well. The crucial north-south disposition of equal reduced forces might be enforced through zonal arrangements with exit and entry provisions and monitoring procedures specified in an agreement. Reciprocal adoption of dispersed defenses distributed in depth and bolstered by unobtrusive or rapidly emplaceable obstacle systems would improve forward defensive capacity and should increase stability.

Rather than simply reject deep reductions, NATO should attempt to work out and explicate the concrete provisions that would make deep cuts beneficial. If those provisions cannot be agreed to, then so be it. But they should at least be identified. There is something bizarre about the proposition that nearly forty-five years after World War II, when neither side has any incentive for calculated aggression, each must continue to devote vast resources to the maintenance of huge military establishments for war in Central Europe. Particularly in the wake of recent developments in Eastern Europe, there is a growing sense that the military confrontation is fast becoming, if it is not already, an expensive and dangerous political anachronism. The real challenge is to chart a stable course out. I suspect the challenge can be met analytically. Whether it can be met politically remains to be seen.

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